DOCKET

SUPREME COURT
OF THE UNITED STATES

No. 12-873
Title: Lexmark International, Inc., Petitioner
v.
Static Control Components, Inc.
Docketed: January 16, 2013
Lower Ct: United States Court of Appeals for the Sixth Circuit
Case Nos.: (09-6287, 09-6288, 09-6449)
Decision Date: August 29, 2012
Rehearing Denied: October 26, 2012
Questions Presented

~~Date~~~	~~~~~~~Proceedings and Orders~~~~~~~~~~~~~~~~~~~~
Jan 14 2013	Petition for a writ of certiorari filed. (Response due February 15, 2013)
Feb 15 2013	Waiver of right of respondent Static Control Components, Inc. to respond filed.
Feb 27 2013	DISTRIBUTED for Conference of March 15, 2013.
Mar 1 2013	Response Requested . (Due April 1, 2013)
Mar 25 2013	Order extending time to file response to petition to and including May 1, 2013.
May 1 2013	Brief of respondent Static Control Components, Inc. in opposition filed.
May 10 2013	Reply of petitioner Lexmark International, Inc. filed.
May 14 2013	DISTRIBUTED for Conference of May 30, 2013.
Jun 3 2013	Petition GRANTED.
Jun 5 2013	Consent to the filing of amicus curiae briefs, in support of either party or of neither party, received from counsel for the respondent.
Jun 20 2013	Consent to the filing of amicus curiae briefs, in support of either party or of niether party, received from counsel for the petitioner.
Jun 21 2013	The time to file the joint appendix and petitioner's brief on the merits is extended to and including August 16, 2013.
Jun 21 2013	The time to file respondent's brief on the merits is extended to and including October 15, 2013.
Aug 16 2013	Joint appendix filed. (Statement of costs filed.)
Aug 16 2013	Brief of petitioner Lexmark International, Inc. filed.
Aug 22 2013	Brief amicus curiae of American Intellectual Property Law Association in support of neither party filed.
Aug 22 2013	Brief amicus curiae of DRI - The Voice of the Defense Bar filed.
Aug 23 2013	Brief amici curiae of Law Professors in support of neither party filed.
Sep 17 2013	SET FOR ARGUMENT ON Tuesday December 3, 2013

Sep 17 2013	CIRCULATED
Sep 19 2013	Record from U.S.C.A. for 6th Circuit is electronic.
Oct 15 2013	Brief of respondent Static Control Components, Inc. filed. (Distributed)
Oct 17 2013	Brief amicus curiae of International Trademark Association filed. (Distributed)
Oct 22 2013	Brief amicus curiae of American Antitrust Institute filed. (Distributed)
Nov 12 2013	Reply of petitioner Lexmark International, Inc. filed. (Distributed)
Nov 15 2013	Record from U.S.D.C. for Eastern District of Kentucky is electronic.
Dec 3 2013	Argued. For petitioner: Steven B. Loy, Lexington, Ky. For respondent: James R. Jones, Denver, Colo.

PETITION FOR WRIT OF CERTIORARI

Supreme Court, U.S.
FILED
JAN 14 2013
OFFICE OF THE CLERK

12-873

No. _____

In the Supreme Court of the United States

LEXMARK INTERNATIONAL, INC.,
Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the appropriate analytic framework for determining a party's standing to maintain an action for false advertising under the Lanham Act is (1) the factors set forth in *Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters* ("*AGC*"), 459 U.S. 519, 537-45 (1983), as adopted by the Third, Fifth, Eighth, and Eleventh Circuits; (2) the categorical test, permitting suits only by an actual competitor, employed by the Seventh, Ninth, and Tenth Circuits; or (3) a version of the more expansive "reasonable interest" test, either as applied by the Sixth Circuit in this case or as applied by the Second Circuit in prior cases.

LIST OF PARTIES

Petitioner is Lexmark International, Inc., which was the Appellee and Cross-Appellant below. Respondent is Static Control Components, Inc., which was the Appellant and Cross-Appellee below.

RULE 29.6 STATEMENT

Pursuant to Rule 29.6 of the Supreme Court Rules, Lexmark International, Inc. makes this Disclosure of Corporate Affiliations and Corporate Interest:

Lexmark International, Inc. has no parent corporation, and there are no publicly held corporations that own 10% or more of its stock.

TABLE OF CONTENTS

Page(s)

Question Presented i

List of Parties ii

Rule 29.6 Statement ii

Table of Authorities v

Opinions Below 1

Jurisdiction 1

Relevant Statute 1

Statement of the Case 2

Reasons For Granting the Petition 7

Conclusion 14

Appendix

Appendix A Opinion and Judgment of the United States Court of Appeals for the Sixth Circuit (August 29, 2012) ..... App. 1

Appendix B Order of the United States District Court for the Eastern District of Kentucky Central Division at Lexington (September 28, 2006) . . . . . App. 67

Appendix C Order Denying Rehearing of the United States Court of Appeals for the Sixth Circuit (October 26, 2012) . . . . . App. 90

Appendix D Statutory Provision Involved 15 U.S.C. § 1125 . . . . . App. 92

TABLE OF AUTHORITIES

Page(s)

Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters, 459 U.S. 519 (1983) ..... *passim*

Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc., 165 F.3d 221 (3d Cir. 1998) 8, 9, 12, 13

Famous Horse, Inc. v. 5th Ave. Photo Inc., 624 F.3d 106 (2d Cir. 2010) 9, 10

Frisch's Rests., Inc. v. Elby's Big Boy of Steubenville, Inc., 670 F.2d 642 (6th Cir. 1982) 6, 7

Ortho Pharm. Corp. v. Cosprophar, Inc., 32 F.3d 690 (2d Cir. 1994) 10

Stanfield v. Osborne Indus., 52 F.3d 867 (10th Cir. 1995) 11

Static Control Components, Inc. v. Lexmark Int'l, Inc., 697 F.3d 387 (6th Cir. 2012) ..... *passim*

Telecom Int'l Am., Inc. v. AT&T Corp., 280 F.3d 175 (2d Cir. 2001) 9

Waits v. Frito-Lay, 978 F.2d 1093 (9th Cir. 1992) 6

STATUTES

15 U.S.C. § 1125 2

15 U.S.C. § 1125(a)(1) ..... *passim*

28 U.S.C. § 1254(1) 1

28 U.S.C. § 1331 3

28 U.S.C. § 1332 3

OTHER AUTHORITIES

Gregory Apgar, *Prudential Standing Limitations on Lanham Act False Advertising Claims*, 76 FORDHAM L. REV. 2389 (2008) 7

Jean Wegman Burns, *Confused Jurisprudence: False Advertising Under the Lanham Act*, 79 B.U. L. REV. 807 (Oct. 1999) 7

4 McCarthy, McCarthy on Trademarks and Unfair Competition(4th ed. 1996) 12

Gerald P. Meyer, *Standing Out: A Commonsense Approach to Standing for False Advertising Suits under Lanham Act Section 43(A)*, 2009 U. ILL. L. REV. 295 (2009) 7-8

Restatement (Third) Unfair Competition (1995) 12

OPINIONS BELOW

The September 28, 2006, Order of the United States District Court for the Eastern District of Kentucky, which dismissed Static Control's Lanham Act counterclaim, is unreported, but is available at 2006 U.S. Dist. LEXIS 73845, and is reproduced in Appendix B. The August 29, 2012, Opinion of the three-judge Panel of the Sixth Circuit, which reversed the District Court's Order, in relevant part, is reported at *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387 (6th Cir. 2012) and is reproduced in Appendix A. The October 26, 2012, Order of the Sixth Circuit, which denied rehearing en banc, is unreported, but is available at 2012 U.S. App. LEXIS 23975, and is reproduced in Appendix C.

JURISDICTION

The judgment of the Sixth Circuit was entered on August 29, 2012. A timely petition for rehearing en banc was filed on September 12, 2012, and was denied on October 26, 2012. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

RELEVANT STATUTE

The statutory claim at issue is created by 15 U.S.C. § 1125(a)(1)(B), which provides as follows:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or

> misleading description of fact, or false or misleading representation of fact, which—
>
> ....
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

The full text of 15 U.S.C. § 1125 is reproduced at Appendix D.

STATEMENT OF THE CASE

This Petition involves the three-way circuit split on standing requirements for Lanham Act false advertising claims. With respect to that issue, the Sixth Circuit Panel below felt constrained by a prior Sixth Circuit case on the "reasonable interest" test and practically invited intervention by this Court, concluding that "even if we were to prefer the approach taken by our sister circuits [to Lanham Act standing], we cannot overturn a prior published decision of this court absent inconsistent Supreme Court precedent or an en banc reversal." *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387, 411 (6th Cir. 2012), App. 37-38.

The facts relevant to this Petition are set forth in the Opinion of the Sixth Circuit. *See id.* at 395-98, App. 4-7. In summary, Lexmark International, Inc.

("Lexmark") asserted various copyright and patent infringement claims against Static Control Components, Inc. ("Static Control") related to, among other things, Static Control's manufacture and sale of microchips used by remanufacturers of toner cartridges for Lexmark's laser printers. Static Control asserted counterclaims under federal and state antitrust laws and a false advertising claim under the Lanham Act. Multiple remanufacturers were also parties to the case, but they were dismissed pursuant to settlement agreements prior to the appeal to the Sixth Circuit.

Jurisdiction was proper in the court of the first instance, in this case the United States District Court for the Eastern District of Kentucky, pursuant to 28 U.S.C. § 1331 as both Lexmark's underlying complaint and Static Control's counterclaims asserted claims arising under federal law and pursuant to 28 U.S.C. § 1332 as there was complete diversity of citizenship.

The market relationships of Lexmark, Static Control, and the remanufacturers were summarized by the Sixth Circuit as follows:

> Lexmark manufactures laser printers, which require toner cartridges to print. The market for printers and toner cartridges generally has many players, e.g., Xerox, Epson, Hewlett-Packard, and Canon, and Lexmark's share of the overall printer market is less than 15%. Each company generally manufactures its printers to work with only its own style of cartridges, and each company's cartridges will work with only its brand of printers. Therefore, each company typically dominates the aftermarket *for*

> cartridges compatible with its brand of printers, although the primary market for printers is well populated.
>
> Remanufacturers are companies that participate in the toner-cartridge aftermarkets by acquiring used toner cartridges of all kinds of printers, repairing and refilling them, and selling them to owners of that kind of printer at a lower price....
>
> Static Control does not manufacture, remanufacture, or sell toner cartridges of any kind, but it is the market leader on making and selling the components necessary to remanufacture Lexmark cartridges. Lexmark, on the other hand, sells toner cartridges but does not sell any of the component parts necessary to repair or remanufacture its toner cartridges....

Static Control, 697 F.3d at 395-96, App. 4-7.

As summarized by the Sixth Circuit, the substance of Static Control's Lanham Act counterclaim was as follows:

> Static Control contends that Lexmark violated the Lanham Act by engaging in false advertising. Static Control alleges that Lexmark "falsely informed customers that SCC's products infringe Lexmark's purported intellectual property," and "misled . . . customers of SCC's products that license agreements prohibit remanufacturing Lexmark toner cartridges,

> when no license agreements actually exist," causing Static Control's customers to believe that Static Control is engaging in illegal conduct and thereby damaging Static Control's business and reputation.

Id. at 409, App. 34.

The District Court dismissed both Static Control's antitrust and Lanham Act counterclaims for lack of standing, applying the factors set forth in *Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters* ("*AGC*"), 459 U.S. 519, 537-45 (1983), to each claim. In so doing, the District Court explained that "[m]ultiple courts" have held that the factors for antitrust standing are the same as for Lanham Act standing. (D. Ct. Order 9/28/06, App. 83) (citing Fifth and Third Circuit cases).

The Sixth Circuit agreed with the District Court's analysis of Static Control's lack of standing with respect to Static Control's federal antitrust claims. Specifically, both lower courts found that Static Control is not a competitor of Lexmark in the alleged relevant market and that "Static Control has failed to plead an antitrust injury" because of the indirectness of the harm alleged by Static Control and the existence of a class of "more direct victims of the [alleged] anticompetitive conduct" (i.e., the cartridge remanufacturers). *See Static Control*, 697 F.3d at 401-08, App. 17-33.

While affirming the District Court's dismissal of Static Control's federal antitrust claim, the Sixth Circuit reversed the dismissal of Static Control's state

law antitrust claim and its Lanham Act claim, holding that the *AGC* factors are not the proper test for standing with respect to those claims. *Id.* at 410-11, App. 35-38.

Specifically with regard to Static Control's Lanham Act false advertising claim, the Sixth Circuit recognized that it had "not addressed Lanham Act standing since *Frisch's Restaurants*." *Id.* at 410, App. 36, citing *Frisch's Rests., Inc. v. Elby's Big Boy of Steubenville, Inc.*, 670 F.2d 642, 649-50 (6th Cir. 1982). In its 1982 opinion in *Frisch's Restaurants* the Sixth Circuit appeared to apply the so-called "reasonable interest" test to a false association claim under the Lanham Act, as opposed to a false advertising claim such as the one at issue in this Petition. The Lanham Act, 15 U.S.C. § 1125(a)(1), has two "prongs" that create "two bases of liability: (1) false representations concerning the origin, association, or endorsement of goods or services through the wrongful use of another's distinctive mark, name, trade dress, or other device ('false association'), and (2) false representations in advertising concerning the qualities of goods or services ('false advertising')." *Waits v. Frito-Lay*, 978 F.2d 1093, 1108 (9th Cir. 1992). Some courts, such as the Ninth Circuit, apply different standing tests to each of the prongs based upon the distinct purposes of each prong. *See id.*

While recognizing that most federal circuits to have addressed the issue have now taken one of two more rigorous approaches to prudential standing for false advertising claims under the Lanham Act, the Sixth Circuit Panel in this case nevertheless reversed the District Court's dismissal of Static Control's Lanham

Act counterclaim, concluding that the Panel was constrained by the *Frisch's Restaurants* precedent and holding that the District Court erred by not applying the reasonable interest test to that claim. *Static Control*, 697 F.3d at 411, App. 37-38. The Sixth Circuit denied Lexmark's motion for en banc review by its Order of October 26, 2012.

REASONS FOR GRANTING THE PETITION

Granting the Petition for Writ of Certiorari will enable this Court to provide much needed guidance on the application of an important federal statute and will resolve wide-spread confusion and disagreement among the United States circuit courts as to the proper test for standing to pursue a Lanham Act false advertising claim.

False advertising claims under the Lanham Act have been raised and litigated with increasing frequency in the federal courts, and the inconsistent decisions of the federal circuits on standing under the Lanham Act have been sharply criticized. *See* Jean Wegman Burns, *Confused Jurisprudence: False Advertising Under the Lanham Act*, 79 B.U. L. REV. 807, 808 (Oct. 1999) ("This small provision in the midst of a federal trademark statute is quickly becoming a proverbial 800-pound gorilla in the legal wars between competing companies."); Gregory Apgar, *Prudential Standing Limitations on Lanham Act False Advertising Claims*, 76 FORDHAM L. REV. 2389, 2421 (2008) ("Section 43(a) of the Lanham Act has become an important and frequently invoked statute."); Gerald P. Meyer, *Standing Out: A Commonsense Approach to Standing for False Advertising Suits under Lanham*

Act Section 43(A), 2009 U. ILL. L. REV. 295, 297-98 (2009) ("Since the passage of section 43(a), courts have had some difficulty defining the boundaries of this broader range of plaintiffs.... [federal circuit courts] differ greatly in their conclusions on how courts should properly determine which types of parties should be allowed to bring suit under section 43(a).").

Yet, this Court has not previously considered or resolved the threshold issue of the test for standing for such claims. Because the Sixth Circuit's Opinion in this case further contributes to a three-way circuit split, and because the issue arises here as a pure issue of law presented by a motion to dismiss, this case is an appropriate vehicle for this Court to establish the appropriate analytic framework to be used by courts to determine the circumstances under which a party has standing to maintain an action for false advertising under the Lanham Act.

As with the Sherman and Clayton Acts, courts have consistently found that in addition to the standing requirements of Article III, Congress intended to limit the kinds of potential plaintiffs under the Lanham Act by incorporating a "well-established prudential standing doctrine." *Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 227 (3d Cir. 1998) (Alito, J., authoring). The question raised by this appeal is how courts should determine whether a party satisfies the requirements for prudential standing under the false advertising prong of the Lanham Act.

As recognized by the Sixth Circuit in this case, the "Seventh, Ninth, and Tenth [Circuits] use a categorical test, permitting Lanham Act suits only by an actual

competitor making an unfair-competition claim [i.e., false advertising]." *Static Control*, 697 F.3d at 410, App. 36. And the "Third, Fifth, Eighth, and Eleventh Circuits all reference antitrust standing or the *AGC* factors in deciding Lanham Act standing." *Static Control*, 697 F.3d at 410, App. 37. *See, e.g., Conte Bros.*, 165 F.3d at 233 ("The test for antitrust standing set forth by the Supreme Court in [*AGC*], provides an appropriate method for adding content to our "reasonable interest" test, and we therefore adopt it as the test for determining a party's statutory standing under § 43(a) of the Lanham Act.").

In this case the Sixth Circuit adopted a third test for standing under the Lanham Act, the "reasonable interest" test, without reference to the *AGC* factors. Following a recent opinion of the Second Circuit, the Sixth Circuit in this case held that a claimant has standing if the claimant can demonstrate "(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising." *Static Control*, 697 F.3d at 410, App. 36, quoting *Famous Horse, Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d Cir. 2010).

However, even within the Second Circuit there is conflicting authority as to what the proper test for standing in false advertising cases should be. "On at least one occasion, we [the Second Circuit] have applied the strong categorical test that in order 'to have standing for a Lanham Act false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury.'" *Famous Horse*, 624 F.3d at 112, citing *Telecom Int'l Am., Inc. v. AT&T Corp.*,

280 F.3d 175, 197 (2d Cir. 2001). The Second Circuit found that the Lanham Act plaintiff in *Famous Horse* was a competitor of the defendant, and therefore, the court did not have to determine whether some form of the "reasonable interest" test or the categorical test was controlling. *Id.* at 113.

Assuming, however, that the Second Circuit now generally applies some version of the reasonable interest test, the Sixth Circuit's Opinion in this case appears to exacerbate the already existing three-way circuit split by applying that test in a way that is materially different and more expansive than the Second Circuit.

When the Second Circuit has applied the "reasonable interest" test to determine standing in false advertising cases, it has "frequently stressed the importance of competition between litigants in evaluating Lanham Act claims [.]" *Id.* at 112. Accordingly, the Second Circuit has "tended to require a more substantial showing where the plaintiff's products are not obviously in competition with defendant's products, or the defendant's advertisements do not draw direct comparisons between the two." *Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994) (emphasis added). Although the Sixth Circuit in this case found that Static Control was not a competitor of Lexmark, and there is no allegation that the "advertisements" at issue draw direct comparisons between Lexmark's and Static Control's products, the Sixth Circuit's Opinion made no mention of the heightened standard for non-competitors required under the Second Circuit's version of the "reasonable interest" test. Thus, the

Sixth Circuit appears to adopt a more lenient test for standing under the Lanham Act than the Second Circuit, or any other circuit for that matter.

If either of the other two "narrower approaches" to Lanham Act standing were applied in this case, it is likely that Static Control would not have standing to assert its Lanham Act counterclaims. *Static Control*, 697 F.3d at 410, App. 36.

First, under the "categorical test" employed by the Seventh, Ninth, and Tenth Circuits for false advertising claims, Static Control's claim would fail because it is not an actual competitor of Lexmark. *See, e.g., Stanfield v. Osborne Indus.*, 52 F.3d 867, 873 (10th Cir. 1995) ("A false advertising claim implicates the Lanham Act's purpose of preventing unfair competition. Thus, to have standing for a false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury. In the instant case, plaintiff is not now, nor has he ever been, in competition with defendants."). The Sixth Circuit found that Static Control was a mere supplier to Lexmark's competitors in the "cartridge market," and not a competitor of Lexmark in its analysis of Static Control's federal antitrust claim. *See, e.g., Static Control*, 697 F.3d at 406, App. 28 ("Static Control's allegations resemble a classic case of a supplier seeking standing to recover for indirect damages following anticompetitive conduct directed at its customers' market.").

Second, if Lanham Act standing is properly assessed by reference to the *AGC* factors—as held by the Third, Fifth, Eighth, and Eleventh Circuits—then the District

Court's dismissal of the Static Control's Lanham Act claims using that analysis should be affirmed.

In applying the *AGC* factors to the standing analysis under the Lanham Act, the District Court joined the Fifth, Eighth, and Eleventh Circuits in following the lead of the Third Circuit and leading commentators on Lanham Act standing. *See Conte Brothers*, 165 F.3d at 223 ("While we are the first court of appeals to utilize this standing analysis in the context of a Lanham Act claim, we note that its use has the imprimatur of two prominent commentators in the area.") (citing 4 McCarthy, McCarthy on Trademarks and Unfair Competition § 27:32 n.1 (4th ed. 1996) ("In the author's opinion, some limit on the § 43(a) standing of persons remote from the directly impacted party should be applied by analogy to antitrust law, such as use of the criteria listed in *Associated General Contractors, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 74 L. Ed. 2d 723, 103 S. Ct. 897 (1983)."); Restatement (Third) Unfair Competition, § 3, cmt. f (1995) ("In determining whether an asserted injury is sufficiently direct to justify the imposition of liability, the Supreme Court's analysis of similar issues under federal antitrust law may offer a useful analogy.")).

The *AGC* factors, as reviewed by the court in *Conte Brothers* include:

> (1) The nature of the plaintiff's alleged injury: Is the injury 'of a type that Congress sought to redress in providing a private remedy for violations of the antitrust laws'?

> (2) The directness or indirectness of the asserted injury.
>
> (3) The proximity or remoteness of the party to the alleged injurious conduct.
>
> (4) The speculativeness of the damages claim.
>
> (5) The risk of duplicative damages or complexity in apportioning damages.

Conte Bros., 165 F.3d at 233 (citing *AGC*).

Applying these factors in this case, the District Court found that Static Control lacked prudential standing to assert its Lanham Act false advertising claims "[f]or the same reasons that [Static Control] lacks standing to pursue its antitrust claims." (D. Ct. Order 9/28/06, App. 83).

> Those reasons include, *inter alia*, the existence of more direct plaintiffs in the form of remanufacturers of Lexmark's cartridges, one of which is asserting a Lanham Act claim in this litigation; the remoteness of the injury to SCC—the alleged injury being a byproduct of the supposed manipulation of consumers' relationships with remanufacturers (or intermediate cartridge brokers); and Lexmark's alleged intent is to dry up spent cartridge supplies at the remanufacturing level, rather than at [Static Control]'s supply level, making

> remanufacturers Lexmark's alleged intended target.

Id.

The Sixth Circuit reversed the District Court's dismissal of Static Control's Lanham Act false advertising claim based solely on the Panel's belief that it was bound by a particularly expansive version of the reasonable interest test, which is the minority view among the three different tests for prudential standing under the Lanham Act. This Court should grant Lexmark's Petition to allow the Court to consider the proper approach for determining prudential standing for a plaintiff asserting a false advertising claim under the Lanham Act and to thereby resolve the widening circuit split on this important issue of federal law.

CONCLUSION

For these reasons, Petitioner asks that this Petition for Writ of Certiorari be granted.

Respectfully submitted,

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APPENDIX

APPENDIX

TABLE OF CONTENTS

Appendix A Opinion and Judgment of the United States Court of Appeals for the Sixth Circuit (August 29, 2012) . . . . . App. 1

Appendix B Order of the United States District Court for the Eastern District of Kentucky Central Division at Lexington (September 28, 2006) . . . . . App. 67

Appendix C Order Denying Rehearing of the United States Court of Appeals for the Sixth Circuit (October 26, 2012) . . . . . App. 90

Appendix D Statutory Provision Involved 15 U.S.C. § 1125 . . . . . App. 92

APPENDIX A

RECOMMENDED FOR FULL-TEXT PUBLICATION
Pursuant to Sixth Circuit Rule 206

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

Nos. 09-6287/6288/6449

[Filed August 29, 2012]

STATIC CONTROL COMPONENTS, INC., *Plaintiff-Appellant / Cross-Appellee*,	)
v.	)
LEXMARK INTERNATIONAL, INC., *Defendant-Appellee / Cross-Appellant*.	)

Appeal from the United States District Court
for the Eastern District of Kentucky at Lexington.
Nos. 02-00571; 04-00084—Gregory F. Van Tatenhove, District Judge.

Argued: March 6, 2012

Decided and Filed: August 29, 2012

Before: KEITH, BOGGS, and MOORE, Circuit Judges.

COUNSEL

ARGUED: Seth D. Greenstein, CONSTANTINE & CANNON LLP, Washington, D.C., for Appellant/Cross-Appellee. Steven B. Loy, STOLL KEENON OGDEN PLLC, Lexington, Kentucky, for Appellee/Cross-Appellant. **ON BRIEF:** Seth D. Greenstein, CONSTANTINE & CANNON LLP, Washington, D.C., Joseph C. Smith, Jr., BARTLIT BECK HERMAN PALENCHAR & SCOTT, LLP, Denver, Colorado, William L. London III, STATIC CONTROL COMPONENTS, INC., Stanford, North Carolina, M. Miller Baker, Stefan M. Meisner, McDERMOTT WILL & EMERY LLP, Washington, D.C., W. Craig Robertson III, Mickey T. Webster, WYATT, TARRANT & COMBS, LLP, Lexington, Kentucky, for Appellant/Cross-Appellee. Steven B. Loy, Anthony J. Phelps, Christopher L. Thacker, STOLL KEENON OGDEN PLLC, Lexington, Kentucky, William J. Hunter, Jr., STOLL KEENON OGDEN PLLC, Louisville, Kentucky, Timothy C. Meece, Binal J. Patel, Matthew P. Becker, Jason S. Shull, Michael L. Krashin, BANNER & WITCOFF, LTD., Chicago, Illinois, Joseph M. Potenza, Christopher B. Roth, BANNER & WITCOFF, LTD., Washington, D.C., for Appellee/Cross-Appellant.

OPINION

KAREN NELSON MOORE, Circuit Judge. Lexmark International, Inc. ("Lexmark") is a major producer of laser printers and toner cartridges for its laser printers. Other companies, called remanufacturers, acquire used Lexmark toner cartridges, refill them, and sell them to owners of Lexmark printers at a lower cost. Lexmark developed microchips for both the toner cartridges and the printers so that Lexmark printers will reject any toner cartridges not containing a matching microchip, and over time Lexmark has patented certain aspects of the cartridges. Static Control Components, Inc. ("Static Control") has identified how to replicate the cartridge microchips and sells the microchips to the remanufacturers along with other parts to facilitate the repair and resale of Lexmark toner cartridges.

Lexmark sued Static Control in 2002 (the "02 Action") for copyright violations related to its source code in making the duplicate microchips and was given a preliminary injunction by the district court. Static Control counterclaimed under federal and state antitrust and false-advertising laws. While that suit was pending, Static Control redesigned its microchips and sued Lexmark for declaratory judgment in 2004 (the "04 Action") to establish that the redesigned microchips did not infringe any copyright.[1] Lexmark counterclaimed again for copyright violations and this time added patent counterclaims against Static Control

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[1] Citations to the record herein are to the 04 Action unless designated with "02R."

and eventually three of the remanufacturers. The two suits were consolidated into the 04 Action.

On appeal of the preliminary injunction, the Sixth Circuit vacated and rejected Lexmark's copyright theories. *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004) ("*Lexmark I*"). On remand, Lexmark successfully moved to dismiss all of Static Control's counterclaims. The case proceeded to trial, and the only issues ultimately submitted to the jury were Lexmark's claim of patent inducement against Static Control and Static Control's defense of patent misuse. The district judge instructed the jury that its findings on patent misuse would be advisory; the jury held that Static Control did not induce patent infringement and advised that Lexmark misused its patents. Lexmark renewed its earlier request for a judgment as a matter of law and also filed a motion for a retrial, which the district court denied. Both parties timely appealed.

For the following reasons, we **AFFIRM** the district court's dismissal of Static Control's federal antitrust claims, but **REVERSE** the dismissal of Static Control's claims under the Lanham Act and certain claims under state law. We **AFFIRM** the remainder of the judgment on appeal.

I. BACKGROUND

A. Factual Background

Lexmark manufactures laser printers, which require toner cartridges to print. The market for printers and toner cartridges generally has many

players, e.g., Xerox, Epson, Hewlett-Packard, and Canon, and Lexmark's share of the overall printer market is less than 15%. Second Appellee Br. at 4. Each company generally manufactures its printers to work with only its own style of cartridges, and each company's cartridges will work with only its brand of printers. Therefore, each company typically dominates the aftermarket for cartridges compatible with its brand of printers, although the primary market for printers is well populated.

Remanufacturers are companies that participate in the toner-cartridge aftermarkets by acquiring used toner cartridges of all kinds of printers, repairing and refilling them, and selling them to owners of that kind of printer at a lower price.[2] First Appellant Br. at 11. Lexmark also acquires and repairs its used toner cartridges for resale. In the 1990s, Lexmark started a "Prebate" program with certain large customers whereby Lexmark would sell new toner cartridges at an upfront discount of around 20% if the end user agreed to (1) a single-use license and (2) a restriction that the cartridge be returned to Lexmark for remanufacturing or recycling and not to a third-party remanufacturer. Second Appellee Br. at 6. These terms were printed on several notices on the outside of the toner-cartridge box, which instructed the user that opening the box would indicate acceptance of the terms.

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[2] Wazana Brothers International, Inc. d/b/a Micro Solutions Enterprises ("Wazana"), Pendl Companies, Inc. ("Pendl"), and NER Data Products, Inc. ("NER") are three remanufacturers who have purchased microchips from Static Control for Lexmark toner cartridges and were once third-party defendants to the suit. They are not parties to the appeal.

Regular cartridges not subject to the Prebate terms are still sold, but at a higher price than the Prebate cartridges. According to Static Control, the price of Lexmark toner cartridges increased following the implementation of the program because of reduced competition from remanufacturers. First Appellant Br. at 16.[3]

Lexmark toner cartridges each contain a microchip that communicates with the printer once installed. Toner cartridges that are otherwise compatible with Lexmark printers will not function without the microchip. Lexmark obtains these microchips from a supplier that has allegedly agreed to sell microchips only to Lexmark. All Lexmark toner cartridges are initially manufactured with the necessary microchip, but the microchip for the Prebate cartridges is specifically designed to enforce the Prebate terms by disabling the cartridge for future use after the cartridge runs out of toner. To use the Prebate cartridge again, the microchip needs to be replaced. To use a non-Prebate cartridge again, the microchip does not need to be replaced unless it was damaged.

Lexmark eventually obtained several patents relating to its toner cartridges. At issue on appeal are nine utility patents that the remanufacturers allegedly infringe (referred to as the "nine mechanical patents") and two design patents relating to seven different toner

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[3] In comparison, Static Control claims that the price of Hewlett Packard toner cartridges fell during the same period because Hewlett Packard does not employ a similar "Prebate" program and remanufacturers are able to occupy a larger share of the aftermarket for Hewlett Packard toner.

cartridges. Static Control developed a microchip that could replace the microchip on the Prebate toner cartridges, permitting a third party to remanufacture and sell the toner cartridge again. Static Control also sent its customers a letter, referred to as an "Anti-Prebate kit," consisting of information from Static Control's general counsel regarding why the Prebate program is not valid under principles of contract law. Second Appellee Br. at 33. Remanufacturers buy these microchips from Static Control, along with other parts. Static Control does not manufacture, remanufacture, or sell toner cartridges of any kind, but it is the market leader on making and selling the components necessary to remanufacture Lexmark cartridges. First Appellant Br. at 11. Lexmark, on the other hand, sells toner cartridges but does not sell any of the component parts necessary to repair or remanufacture its toner cartridges, whether Prebate cartridges or not.

B. Procedural Background

Lexmark sued Static Control in December 2002 for violations of federal copyright laws and the Digital Millennium Copyright Act ("DMCA"), relating to two computer programs on its printer chips. Lexmark sought to halt Static Control's sale of the allegedly infringing chips. Static Control responded, ultimately counterclaiming under federal and state antitrust and false-advertising laws. Static Control claimed that Lexmark's Prebate program unlawfully excluded competition in the aftermarket for Lexmark-compatible cartridges, reducing competition and increasing prices, and that Lexmark falsely told remanufacturers that Static Control was infringing on Lexmark's patents.

Lexmark then counterclaimed in reply, adding remanufacturers as defendants and making additional claims under the DMCA and various state-law claims, but no patent claims.

On January 8, 2003, Lexmark received a temporary restraining order in the 02 Action, and on January 24, 2003, the district court required Lexmark to post an injunction bond of $75,000. On February 7, 2003, the district court increased the bond to $250,000 and extended relief for 21 days. On February 27, 2003, district court granted the preliminary injunction. Static Control appealed both the injunction and the bond amount, and in October 2004 the Sixth Circuit reversed the preliminary injunction, making no comment on the bond amount. *Lexmark I*, 387 F.3d at 551. Static Control sought rehearing on the issue of the bond amount, which we denied in a one-sentence order. *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, No. 03-5400 (6th Cir. Dec. 29, 2004) (unpublished order). In light of the ruling, the parties stipulated to summary judgment against Lexmark on its DMCA claims. R. 216 (D. Ct. Order 2/23/06).

Before the Sixth Circuit ruled, however, Static Control initiated the 04 Action seeking declaratory judgment under federal copyright laws and the DMCA that its newly modified chips did not infringe Lexmark's copyrights. Lexmark counterclaimed raising patent infringement, DMCA violations, and tort claims, and added three remanufacturers as third-party defendants—Wazana, NER, and Pendl. Following the Sixth Circuit's remand, Lexmark moved to dismiss Static Control's counterclaims. The district court granted the motion in September 2006. During

the course of the proceedings, which concluded in a jury trial, nine of Lexmark's mechanical patents were held valid, *see* R. 1008 (D. Ct. Order 4/24/07), and summary judgment was granted to Lexmark on its claims of direct patent infringement against Wazana, NER, and Pendl, *see* R. 1203 (D. Ct. Order 5/25/07); R. 1245 (D. Ct. Order 5/31/07). All three defendant remanufacturers ultimately settled with Lexmark at various points before the verdict. The district court also granted summary judgment to Lexmark on the validity of its single-use license for Prebate cartridges, which the district court concluded prevented Lexmark's patents from exhausting following the initial sale of the Prebate toner cartridges to end users. R. 1008 (D. Ct. Order 4/24/07).

By the close of trial, the only remaining issues were Lexmark's patent-infringement-inducement claims against Static Control and Static Control's equitable defense of patent misuse. Because the district court had already ruled on summary judgment that three of the remanufacturers directly infringed, the jury was asked to decide whether the unnamed remanufacturers directly infringed as a class and whether Static Control induced any direct infringement. Because the district court determined that patent misuse was an equitable defense, the final jury instructions indicated that the jury's findings with respect to misuse would be merely advisory. R. 1365 (Jury Instructions). The jury returned a verdict that Lexmark had failed to show that the remanufacturers as a class directly infringed Lexmark's patents and failed to show that Static Control induced the direct infringement of the three named remanufacturers, Wazana, NER, and Pendl. R. 1366 (Special Verdict Form at 1-3). The jury then

advised that it found Static Control had proven by a preponderance of the evidence certain facts that supported Static Control's defense that Lexmark misused its patents. *Id.* at 11-19; *see also* R. 1365 (Jury Instructions at 35-41) (defining misuse).

Lexmark moved for judgment as a matter of law both before and after the verdict and also filed a motion for a new trial on its patent inducement claim, arguing that the evidence was sufficient to establish direct infringement by Static Control's customers as a class and that, with respect to inducement, the district court erroneously excluded evidence at trial. The district court denied the motions. R. 1430 (D. Ct. Op. 10/03/08); R. 1521 (D. Ct. Op. & Order 10/28/10). The district court subsequently reversed its prior ruling that Lexmark's patents were not exhausted in its Prebate cartridges in light of recent Supreme Court precedent. R. 1443 (D. Ct. Op. & Order 3/31/09). Both parties filed timely appeals.

II. JURISDICTION

The parties did not state in their initial briefs the basis for this court's appellate jurisdiction. We therefore asked the parties to submit letter briefs addressing whether we have jurisdiction over this appeal or whether the Federal Circuit has exclusive jurisdiction to review the case under 28 U.S.C. § 1295. After all, the entirety of Lexmark's appeal requires us to resolve substantive issues of patent law. Static Control responds that this court has jurisdiction; Lexmark maintains that the Federal Circuit has exclusive jurisdiction. On review, we determine that 28 U.S.C. § 1295 does not require that the Federal

Circuit hear this case on appeal. We have jurisdiction under 28 U.S.C. § 1291.

The Federal Circuit has exclusive jurisdiction over appeals from final decisions of a district court "if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title." 28 U.S.C. § 1295(a)(1) (2000). Section 1338 gives federal district courts original jurisdiction exclusive of the state courts over "any civil action arising under any Act of Congress relating to patents." 28 U.S.C. § 1338(a) (1999). Because Congress used the phrase "arising under," the Supreme Court has held that patent issues raised in relation to a defense or as counterclaims are insufficient to confer Federal Circuit jurisdiction. *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 831 (2002). Congress amended 28 U.S.C. §§ 1295 and 1338 in the Leahy-Smith America Invents Act to provide additionally for exclusive Federal Circuit jurisdiction over "any civil action in which a party has asserted a compulsory counterclaim arising under[] any Act of Congress relating to patents," but the amendment is applicable only "to any civil action commenced on or after the date of the enactment of this Act." Pub. L. 112-29, § 19(b), (e), 125 Stat. 333. The law was enacted on September 16, 2011. The civil actions here were commenced well before that date; therefore, the new provision does not apply.

At first glance, this case appears clear cut: In both the 02 and the 04 Actions, the issues implicating patent law arose as counterclaims. However, the Supreme Court has suggested—but declined to decide—that the evolving circumstances of a case may create a situation wherein exclusive Federal Circuit appellate jurisdiction

would follow. *Holmes*, 535 U.S. at 829 n.1 ("[T]his case does not call upon us to decide whether the Federal Circuit's jurisdiction is fixed with reference to the complaint as initially filed or whether an actual or constructive amendment to the complaint raising a patent-law claim can provide the foundation for the Federal Circuit's jurisdiction."); *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 814-15 (1988) ("We need not decide under what circumstances, if any, a court of appeals could furnish itself a jurisdictional basis unsupported by the pleadings by deeming the complaint amended in light of the parties' 'express or implied consent' to litigate a claim.").

Whatever those evolving circumstances may be, however, they are not present in this case. Lexmark can point to no actual or constructive amendment of either complaint. Constructive amendments typically occur when a specific claim is not raised, but the parties by their actions act as if they consent to making the claim a part of the proceedings. *See Torry v. Northrop Grumman Corp.*, 399 F.3d 876, 878 (7th Cir. 2005) (Posner, J.); *Sunbeam Prods., Inc. v. Wing Shing Prods. (BVI) Ltd.*, 153 F. App'x 703, 706-07 (Fed. Cir. 2005) (unpublished opinion), *cert. denied*, 546 U.S. 1095 (2006) (holding Federal Circuit had jurisdiction because pretrial order that added patent issue debated by the parties constructively amended the complaint even though not raised as a claim). Here, the patent claims were raised *ab initio* by the interested party as counterclaims, and no amendment would be necessary to make them formally part of the suit. Furthermore, Lexmark sought actually to amend the complaint in the 02 Action to add its patent claims with the express purpose of assuring Federal Circuit jurisdiction. R. 456

(Lexmark's Mot. to Amend). Static Control objected, and Lexmark's motion was denied. R. 649 (D. Ct. Order 1/9/07). Constructive amendment typically requires express or implied consent of the parties, both of which are lacking.

Lexmark's best argument is that its patent counterclaims in the 04 Action added new parties, and that the district court's jurisdiction over Lexmark's third-party complaint potentially "arose under" the patent laws. Unfortunately for Lexmark, this too seems insufficient to make the case one "arising under" patent laws. Lexmark offers no law or case addressing whether a third-party complaint can render any part of the controversy "arising under" patent law. However, the Supreme Court in *Holmes* compared the "arising under" inquiry for 28 U.S.C. § 1338 to the "arising under" inquiry for original jurisdiction under 28 U.S.C. § 1331. And we know that third-party defendants may not remove a controversy to federal court solely because the original defendant filed related federal claims against them. *First Nat'l Bank of Pulaski v. Curry*, 301 F.3d 456, 461-67 (6th Cir. 2002). Lexmark has presented no compelling reason to treat this case any differently. The district court's jurisdiction arose under 28 U.S.C. §§ 1331 and 1367, and not under § 1338. Therefore, we have appellate jurisdiction under 28 U.S.C. § 1291.

III. INJUNCTION-BOND AMOUNT

Static Control appeals the amount of the injunction bond entered by the district court when the district

court issued the preliminary injunction in 2002.[4] The final bond amount entered by the district court was $250,000; Static Control sought estimated damages of over $17 million. When the preliminary injunction was entered in 2003, Static Control appealed both the injunction and the bond amount to the Sixth Circuit. We vacated the injunction, but we made no mention of the bond. *Lexmark I*, 387 F.3d 522. Static Control sought rehearing from the Sixth Circuit specifically on the issue of the proper injunction-bond amount, which we summarily denied.

In November 2009, only a few days after filing its notice of appeal, Static Control filed a Motion for Wrongful Injunction Damages in the district court, seeking actual damages of $7-10 million, well in excess of the $250,000 injunction-bond amount. R. 1473 (Static Control's Mot. to Vacate). Lexmark opposed, arguing that the bond amount should serve as the cap on damages. R. 1495 (Lexmark's Opp. to Mot. to Vacate). As late as January 29, 2010, Static Control was imploring the district court to "recalculate the bond to reflect the projected damages and set an evidentiary hearing to allow Static Control to prove its actual damages." R. 1503 (Static Control's Reply Mot. to Vacate at 14). After oral argument in this appeal and prompting from Lexmark, the district court recently denied this motion and ordered the clerk to release the security bond to Static Control. R. 1530

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[4] Static Control concedes that "a party cannot recover more than the value of the bond for injunction-related damages." First Appellant Br. at 25 & n.10 (citing *Mich. AFSCME Council 25, Local 1640 v. Matrix Human Servs.*, 589 F.3d 851, 860 (6th Cir. 2009)).

(D. Ct. Order 4/24/12). Static Control has sent us a letter brief asking us to ignore this order because the district court lacked jurisdiction to decide this amount following the filing of Static Control's notice of appeal, an argument which Static Control presented in its most recent papers before the district court but not in its initial motion seeking the very relief it now claims the district court lacks the jurisdiction to award.

Lexmark contends that this panel should not consider this argument because the Sixth Circuit necessarily rejected Static Control's claim in declining to vacate the bond amount on the initial appeal. Static Control argues that this issue may be considered because it was never "*squarely decided*" on the first appeal. First Appellant Br. at 24 n.9 (internal quotation marks omitted). "Issues decided at an early stage of the litigation, either explicitly or by necessary inference from the disposition, constitute the law of the case." *Hanover Ins. Co. v. Am. Eng'g Co.*, 105 F.3d 306, 312 (6th Cir. 1997) (internal quotation marks omitted); *see also Bowles v. Russell*, 432 F.3d 668, 676-77 (6th Cir. 2005), *aff'd*, 551 U.S. 205 (2007). Static Control appears to have the better of the argument, because we do not see how the prior panel's lack of commentary on the bond amount (and subsequent decision not to rehear the appeal on the bond amount) contains a necessary inference that we found the bond amount to be proper. Ultimately, however, whether our refusal to reconsider Static Control's appeal of the bond amount constitutes the law of the case does not matter because the bond amount was not improper.

A bond amount shall be set "in an amount that the court considers proper to pay the costs and damages

sustained by any party found to have been wrongfully enjoined or restrained." Fed. R. Civ. P. 65(c). District courts have broad discretion in setting the bond amount. *Div. No. 1, Detroit, Bhd. of Locomotive Eng'rs v. Consol. Rail Corp.*, 844 F.2d 1218, 1226 (6th Cir. 1988). "[T]he court may order a bond that does not completely secure the enjoined party or the court may decline to order a bond, if necessary for the purpose of effecting justice between the parties." *Id.* at 1227 n.15 (internal quotation marks omitted).

At the preliminary injunction hearing, Static Control's CEO testified that the company would lose $17,463,580 if forced to halt sales for two years. The CEO testified to the overall method his company used to calculate that number, but never presented any underlying calculations. Cross-examination revealed a number of assumptions underlying Static Control's estimate, including the assumption that it would take six years for Static Control to regain its previous market position if enjoined. The fact that the ultimate bond amount selected by the district court was only two percent of Static Control's claimed damages therefore carries little weight. The district court was not required to credit Static Control's testimony solely because Lexmark did not present evidence to the contrary. The district court received evidence from Static Control, weighed the evidence against the strength of Lexmark's claims, which were deemed strong at the time, and accordingly raised the initial bond from $75,000 to $250,000. We decline to hold that the district court abused its discretion in setting the bond amount under these circumstances.

IV. STATIC CONTROL'S FEDERAL ANTITRUST COUNTERCLAIMS

Static Control counterclaimed in the 02 Action under §§ 4 and 16 of the Clayton Act, 15 U.S.C. §§ 15, 26, for violations of §§ 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2, seeking damages and injunctive relief. 02R. 172 (2d Am. Answer & Counterclaim). The district court granted Lexmark's motion to dismiss on the basis that Static Control did not have standing to bring the federal antitrust claims for damages or injunctive relief. R. 392 (D. Ct. Order 9/28/06).

A. Standard of Review

We review de novo a district court's decision to dismiss a counterclaim for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6). *United Ass'n of Journeymen & Apprentices of the Plumbing and Pipefitting Indus., Local No. 577 v. Ross Bros. Constr. Co.*, 191 F.3d 714, 716 (6th Cir. 1999). In reviewing a motion to dismiss, we accept all non-conclusory allegations of fact as true and decide whether the claimant has stated a plausible claim for relief. *Ashcroft v. Iqbal*, 556 U.S. 662, 678-79 (2009). The pleading must state "enough facts to state a claim to relief that is plausible on its face"; failure to plead sufficient facts will lead to dismissal of the claim. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007).

B. Antitrust Standing for Counterclaims with Money Damages

Pursuant to the Clayton Act, 15 U.S.C. § 15(a), private parties may bring private actions for violations

of the Sherman Act. Section 1 of the Sherman Act prohibits conspiracies to restrain trade. 15 U.S.C. § 1. "A Section 1 conspiracy requires more than a manufacturer's unilateral refusal to deal. 'There must be evidence that tends to exclude the possibility that the [conspirators] were acting independently.'" *Watson Carpet & Floor Covering, Inc. v. Mohawk Indus., Inc.*, 648 F.3d 452, 457 (6th Cir. 2011) (internal citation omitted) (quoting *Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 764 (1984)). Section 2 of the Sherman Act prohibits the illegal monopolization of a market. 15 U.S.C. § 2. To bring a claim under § 2, a claimant must show "'(1) possession of monopoly power in the relevant market; and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen or historic accident.'" *Tarrant Serv. Agency, Inc. v. Am. Standard, Inc.*, 12 F.3d 609, 613 (6th Cir. 1993) (quoting *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966)), *cert. denied*, 512 U.S. 1221 (1994).

To bring a private claim for damages under either section of the Sherman Act, the claimant must first demonstrate that it has standing. Although required in all cases, standing in an antitrust case is more onerous than the conventional Article III inquiry. "[A]ntitrust standing is a threshold, pleading-stage inquiry and when a complaint by its terms fails to establish this requirement we must dismiss it as a matter of law . . . ." *NicSand, Inc. v. 3M Co.*, 507 F.3d 442, 450 (6th Cir. 2007) (en banc). The district court decides whether a claimant has adequately pleaded antitrust standing by balancing five factors:

> (1) the causal connection between the antitrust violation and harm to the plaintiff and whether that harm was intended to be caused; (2) the nature of the plaintiff's alleged injury including the status of the plaintiff as consumer or competitor in the relevant market; (3) the directness or indirectness of the injury, and the related inquiry of whether the damages are speculative; (4) the potential for duplicative recovery or complex apportionment of damages; and (5) the existence of more direct victims of the alleged antitrust violation.

Southaven Land Co., Inc. v. Malone & Hyde, Inc., 715 F.2d 1079, 1085 (6th Cir. 1983) (citing *Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters* ("*AGC*"), 459 U.S. 519, 537-45 (1983)). No one factor controls. *Peck v. Gen. Motors Corp.*, 894 F.2d 844, 846 (6th Cir. 1990).

Static Control alleges that Lexmark conspired with unidentified microchip suppliers and resellers of Lexmark-manufactured printers to restrain trade and otherwise monopolize "the relevant markets," thereby reducing output, increasing prices, and maintaining Lexmark's monopoly. Static Control defines the "relevant markets" as including three distinct but related aftermarkets for Lexmark-specific products: (1) the market for Lexmark replacement toner cartridges, (2) the market for component parts for Lexmark cartridges, and (3) the market for microchips

for Lexmark cartridges.[5] 02R. 172 (2d Am. Answer & Countercl. at ¶¶ 17-18). The allegations repeatedly refer to the "relevant markets" as a group when the specific facts relate only to the market for replacement cartridges. For example, Static Control alleges that Lexmark has "an 85% share in each of the relevant markets," *id.* at ¶ 18, but on closer examination the counterclaim alleges that Lexmark competes only in the market for toner cartridges, *id.* at ¶¶ 12, 24. Static Control alleges that Lexmark's anticompetitive chips "exclude competition, restrict output, and increase end-user prices in the relevant markets," *id.* at ¶ 47, but the counterclaim never identifies any change in competition, output, or prices in the market for component parts or microchips as a result of Lexmark's conduct. The only specific allegations as to price and output relate to the market for toner cartridges. *Id.* at ¶¶ 50-52, 58. Therefore, although we read the allegations of the counterclaim in the light most favorable to Static Control, we must carefully consider the actual factual allegations underlying such conclusory allegations. *Twombly*, 550 U.S. at 556-57.

In its counterclaim, Static Control's allegations can be categorized into five practices by Lexmark that Static Control claims constitute anticompetitive

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[5] Lexmark argued below that the relevant market was the larger primary market for all brands of laser printer cartridges and parts, not just the aftermarket for Lexmark products. The jury in its advisory findings sided with Static Control. R. 1366 (Special Verdict Form at 15). On appeal, Lexmark does not concede its position on the relevant market, but argues against standing using the aftermarket. Second Appellee Br. at 40.

conduct: (1) the Prebate program;[6] (2) using "lock-out" microchip technology in its printers, causing them to disable when any non-Lexmark replacement cartridge is inserted; (3) requiring Lexmark's microchip supplier to refuse to sell replacement chips to anyone but Lexmark; (4) redesigning its microchips specifically to render cartridges that used Static Control's microchips incompatible; and (5) filing the 02 Action targeting Static Control. First Appellant Br. at 12-15; 02R. 172 (2d Am. Answer & Countercl. at ¶¶ 32, 44-46, 54-56). When the allegations are read for specificity and plausibility, these actions target and affect the different markets in different ways. We therefore examine each of these alleged violations separately to see if Static Control has standing to pursue any of them.

1. Prebate Program

Static Control alleges that the Prebate Program, through its lower prices and misleading statements that the end user committed to a license agreement when no such license existed, cajoled end users into purchasing fewer remanufactured cartridges and thereafter returning them primarily to Lexmark. As a result, Static Control was also harmed because it lost profits from the decline in sales of microchips and components for Lexmark-compatible cartridges

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[6] Specifically, Static Control complains that Lexmark engaged in anticompetitive conduct by creating two classes of otherwise identical cartridges, Prebate and non-Prebate, selling the non-Prebate cartridges at artificially inflated prices, falsely invoking patent rights to prevent remanufacturers from repairing Prebate cartridges, and engaging in other threatening behavior.

following the decline in sales of remanufactured cartridges. First Appellant Br. at 16.

As alleged, the Prebate Program targets only the market for remanufactured cartridges. No part of the Prebate Program relates to the market for microchips or components, even though the allegations support the Prebate Program's incidental effects in the other markets. Static Control itself states that "Lexmark specifically launched its Prebate program to intimidate and to exclude competition *from remanufacturers*." 02R. 172 (2d Am. Answer & Countercl. at ¶ 33) (emphasis added). And as discussed above, although Static Control's allegations often refer to the "relevant markets," the specific factual allegations explain only Prebate's impact on the market for remanufactured cartridges. For example, when Static Control alleges that Lexmark used Prebate to "effect[] its deliberate, unlawful, anticompetitive intent to raise prices and exclude competition," *id.*, we can conclude only that this allegation relates to the market for toner cartridges because of the lack of any allegations that the prices were raised in other markets. Having identified the proper market, we easily conclude that all five of the *AGC* factors are lacking with respect to the Prebate program.

Although causation in the traditional sense appears properly alleged—the implementation of the Prebate program decreased the number of remanufactured Lexmark cartridges, which in turn decreased Static Control's sales—Static Control fails to allege plausibly that the Prebate program was intended to harm Static Control. As the district court correctly held, the intended targets of Lexmark's Prebate Program were

the end users and the remanufacturers, not Static Control. R. 392 (D. Ct. Order 9/28/06 at 9). Static Control asserts that these conclusions erroneously rely on factual averments and that the district court failed to accept its facts as alleged, but Static Control itself alleges this: "Lexmark specifically launched its Prebate program to intimidate and to exclude competition from remanufacturers." 02R. 172 (2d Am. Answer & Countercl. at ¶ 33); *see also id.* at ¶ 42 ("Lexmark's sole purpose for deceiving end-users to believe they are contractually bound by [the Prebate Program] is to preserve, maintain, and enhance its unlawful monopoly power in the relevant markets.").

Static Control also fails sufficiently to identify its role in the relevant market for remanufactured cartridges. Traditionally, only claimants who are competitors or consumers within the injured market have standing to sue. *Southaven*, 715 F.2d at 1086. However, claimants who are not direct players in the relevant market may nonetheless have standing if their injury is "'inextricably intertwined' with the injury sought to be inflicted upon the relevant market or participants therein." *Id.* The "inextricably intertwined" exception, however, is narrow. *See Blue Shield of Va. v. McCready*, 457 U.S. 465, 483-84 (1982). This exception was not designed to give standing to claimants whose injuries are a tangential byproduct of monopolistic conduct in a related market. *Southaven*, 715 F.2d at 1086. To succeed, the claimant must show that the defendants "manipulated or utilized [the claimant] as a fulcrum, conduit or market force to injure competitors or participants in the relevant product and geographical markets." *Id.*

Static Control must therefore have alleged that an injury in Lexmark's market—the market for replacement toner cartridges—is inextricably intertwined with the injuries Static Control claims to be suffering in the market for component parts and microchips. The district court rejected Static Control's argument, because Static Control failed adequately to allege that it was "manipulated or utilized by the defendant as a fulcrum, conduit or market force to injure competitors or participants in the relevant product and geographical market." R. 392 (D. Ct. Order 9/28/06 at 10) (quoting *Province v. Cleveland Press Publ'g Co.*, 787 F.2d 1047, 1052 (6th Cir. 1986) (internal quotation marks and brackets omitted)). "If anyone is being manipulated according to [Static Control's] allegations, it is the end consumer." *Id.* at 10-11. We agree.

Static Control's counterclaim makes no mention of being used by Lexmark as a fulcrum, and Static Control does not allege that it was harmed because it was manipulated into harming the remanufacturers. Static Control on appeal argues that Lexmark used Static Control as a fulcrum to injure the remanufacturers by (1) falsely telling remanufacturers that using Static Control's products would constitute infringement; (2) redesigning its microchips, thus forcing Static Control to redesign its microchips to remain compatible; (3) threatening legal action against Static Control; (4) and suing Static Control for baseless copyright claims. First Appellant Br. at 39. But, although these specific allegations are sprinkled in various sections of the counterclaim to support other arguments, we can find no allegations in the counterclaim that Lexmark manipulated Static Control

in any way to carry out its anticompetitive Prebate Program in the market for remanufactured cartridges. "An inextricably intertwined injury is one that results from the manipulation of the injured party as a means to carry out the restraint of trade in the product market." *Province*, 787 F.2d at 1052.

Static Control's allegations establish that it was negatively affected by Lexmark's manipulation of the end users into buying Prebate cartridges, but that Static Control itself was not used as a conduit to achieve the alleged anticompetitive effect in the remanufactured cartridge market. *See Southaven*, 715 F.2d at 1086 (harm from tangential effects of anticompetitive conduct not enough to convey standing). Indeed, the allegations make very clear that Lexmark is using the end users to obtain the desired anticompetitive effects, rather than using Static Control. Static Control specifically alleges that Lexmark "fraudulently induces customers' use of Prebate cartridges" and "exploit[s] consumers' lack of information about choices in replacement cartridges" to reduce the number of non-Prebate cartridges on the market. 02R. 172 (2d Am. Answer & Countercl. at ¶ 37); *see also id.* at ¶ 38 ("Lexmark's anticompetitive *exploitation of consumers' and end-users'* lack of adequate information increases prices and reduces output in the relevant markets.") (emphasis added). No such allegations of exploitation or manipulation exist with respect to Static Control. The level of manipulation of the claimant—and the necessity of the success of such manipulation to achieve the anticompetitive conduct—is simply not present in this case with respect to Static Control. *See Peck*, 894 F.2d at 847.

Even if we were to consider Static Control's injury in the market for components and microchips sufficiently related to the harm caused by the Prebate Program in the remanufactured cartridges market, Static Control still lacks standing due to its failure to satisfy the remaining *AGC* factors. *See Fallis v. Pendleton Woolen Mills, Inc.*, 866 F.2d 209, 211 (6th Cir. 1989) (holding no antitrust standing despite assuming claimant was used as a fulcrum in relevant market), *abrogated on other grounds by Humphreys v. Bellaire Corp.*, 966 F.2d 1037 (6th Cir. 1992). Antitrust causation is much more limited than Article III standing. Here, Static Control's injury is too attenuated to qualify. "[Static Control's] injury is derivative; it is simply a side effect of [Lexmark's] alleged antitrust violations." *Fallis*, 866 F.2d at 210.

Static Control also fails to establish the final three *AGC* factors, which all relate to the directness of Static Control's injuries relative to potentially more-direct victims. Static Control's injuries as a result of the Prebate program are clearly a "byproduct" of the alleged antitrust violation. *Province*, 787 F.2d at 1053; *Fallis*, 866 F.2d at 211. The more-direct victims are the end users, who according to the allegations had to pay more for their cartridges as a result of the allegedly anticompetitive conduct, and the remanufacturers, who were unable to compete in the market for Lexmark-compatible toner cartridges after Lexmark's Prebate program undercut their prices and reduced supply. Although the end users may have little incentive to sue, two of the remanufacturers raised (and ultimately settled) antitrust claims against Lexmark in the same action. R. 392 (D. Ct. Order 9/28/06 at 12). Where there are more-direct victims of

the anticompetitive conduct, those victims have the standing to sue, rather than those affected indirectly. *Southaven*, 715 F.2d at 1087; *Province*, 787 F.2d at 1053-54.

The existence of this clear class of direct victims increases the danger of duplicative recovery should Static Control be given antitrust standing to pursue the Prebate Program and receive treble damages.[7] Static Control may seek only the damages from its own losses, but the concern of duplicative recovery relates more broadly to the issue of requiring a defendant to pay treble damages to parties both directly and indirectly injured from the same antitrust violation. *See Ill. Brick Co. v. Illinois*, 431 U.S. 720, 731 n.11 (1977) (discussing risk of duplicative recovery between direct and indirect purchasers). Finally, we agree with the district court that Static Control's calculation of over $18 million in damages is speculative. R. 392 (D. Ct. Order 9/28/06 at 11).

Static Control's argument for directness of its injury relies heavily on the Second Circuit case *Crimpers Promotions, Inc. v. Home Box Office, Inc.*, 724 F.2d 290, 294-95 (2d Cir. 1983), *cert. denied*, 467 U.S. 1252 (1984), as does much of its argument on standing. The plaintiff in *Crimpers* had standing because HBO and Showtime colluded to prevent his tradeshow from serving as a middleman between television show producers and cable operators, which was the only alternative forum for them to communicate. Crimpers

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[7] The district court did not explicitly discuss the potential for duplicative recovery.

had standing because "[i]njury to Crimpers was the precisely intended consequence of defendants' boycott," even more than the resulting injury to the tradeshow participants. *Id.* at 294. Here, the allegations of both intent and injury are less direct. The Prebate program reduced the number of cartridges available for remanufacture, which in turn reduced the number of microchips sold by Static Control to the remanufacturers. Static Control's allegations resemble a classic case of a supplier seeking standing to recover for indirect damages following anticompetitive conduct directed at its customers' market. *Crimpers* is simply inapposite. We agree that Static Control lacks standing to pursue its antitrust claims as they relate to the Prebate program.

2. Restraints on Microchips in Lexmark Printers and Cartridges

Static Control also argues that the existence of microchips in the cartridges in the first place and Lexmark's exclusive distribution agreement with its own microchip supplier are anticompetitive acts. These acts differ from the Prebate program because they directly target the microchip market in which Static Control is a competitor. Although Lexmark does not compete in the market for microchips, the allegations suggest that Lexmark uses its influence to restrain trade in the microchip market in order to restrain trade in the remanufactured cartridge market. Here, however, Static Control again lacks standing because it has failed to allege how Lexmark's actions caused any antitrust injury.

Static Control objects to the initial creation of the "anticompetitive microchips," but fails to allege how the existence of a microchip requirement alone caused Static Control any injury. *See* 02R. 172 (2d Am. Answer & Countercl. at ¶ 44). Static Control makes no allegations at all relating to the change in prices for components and microchips as a result of Lexmark's use of microchips in its toner cartridges, and Static Control makes no allegations regarding how a microchip requirement affected Static Control's share of the market for components and microchips. Indeed, Static Control fails to allege plausibly how the creation of a microchip requirement hurt Static Control's share of the microchip market, because without the requirement that market would not exist. It is possible that, without the microchips, Static Control would be able to sell more component parts, but Static Control does not make this allegation. Static Control has failed to allege how the existence of a microchip requirement injured Static Control or otherwise gave Lexmark a monopoly in the related market for Lexmark component parts.

Static Control's allegations relating to Lexmark's microchip supplier's refusal to compete with third parties fares no better. As a self-proclaimed "leading supplier to toner cartridge remanufacturers," *id.* at ¶ 30, Static Control fails to allege how the *removal* of one of its direct competitors from the components and microchips market following an exclusive distributorship agreement with a single customer caused any damage to Static Control's position within those markets or profits. *See New Albany Tractor, Inc. v. Louisville Tractor, Inc.*, 650 F.3d 1046, 1052 (6th Cir. 2011) ("Merely demonstrating the existence of an

exclusive distributorship in a market area does not violate Robinson–Patman—or any other antitrust provision."). In general, the removal of a competitor increases (not decreases) the remaining suppliers' market share, and Static Control has not alleged that Lexmark was a former customer or that absent the exclusive agreement Lexmark would have purchased from Static Control.

"Antitrust injury does not arise for purposes of § 4 of the Clayton Act until a private party is adversely affected by an anticompetitive aspect of the defendant's conduct." *Atl. Richfield Co. v. USA Petroleum Co.*, 495 U.S. 328, 339 (1990) (citation and emphasis omitted). Cases have routinely rejected claims of antitrust violations that may very well be violations when the claimants stood to gain from the anticompetitive conduct. Therefore, "[Static Control] cannot recover for a conspiracy to impose nonprice restraints that have the effect of either raising market price or limiting output." *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 583 (1986); *Datagate, Inc. v. Hewlett-Packard Co.*, 941 F.2d 864, 868-69 (9th Cir. 1991) ("As an existing competitor, [claimant] would have benefitted from any chilling of new entry into the market. Therefore, [claimant] can claim no injury as a result of such chilling.") (citation omitted), *cert. denied*, 503 U.S. 984 (1992). Static Control has failed plausibly to allege any antitrust injury stemming from Lexmark's decision to use microchips in its cartridges and to remove its own supplier from the market for microchips.

3. Redesigning Microchips to Circumvent Static Control's product

Once the market for microchips was created, however, the issue becomes whether Lexmark can engage in a conspiracy to eliminate that market or stifle competition within that market. If Lexmark were able to maintain a monopoly on remanufactured toner cartridges by making cartridge parts wholly unavailable, Static Control might have standing to pursue an antitrust violation. *See Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 463-64 (1992). The allegations, however, do not sufficiently allege such behavior. Static Control does not specifically allege a tying scheme under § 1 of the Sherman Act, as was the case in *Eastman Kodak*, nor does Static Control allege any facts to suggest that the prices for parts increased as a result of being illegally tied to the market for cartridges. Static Control alleges that Lexmark continuously redesigned its microchips "to exclude competitors from the relevant markets, restrict output, and increase end-user prices." 02R. 172 (2d Am. Answer & Countercl. at ¶ 45). But Static Control does not allege how Lexmark's redesign decreased competition in the markets in which Static Control competes, the market for microchips or parts. Static Control does not even identify in its pleading who competes in the microchip or parts markets, what their market share is, whether they are controlled by Lexmark, what their prices were, or how their prices were affected by Lexmark's redesign (or any of Lexmark's conduct for that matter). *See CBC Companies, Inc. v. Equifax, Inc.*, 561 F.3d 569, 572 (6th Cir. 2009) (holding allegations insufficient to establish antitrust injury in part due to failure to identify other

market players). The counterclaim lacks other supporting allegations such as the nature and frequency of Lexmark's redesigns and how quickly replacement products were able to adapt to the changes. Nor does Static Control make any non-conclusory allegations to refute the possible business explanation that Lexmark, like most companies, continuously updates its products over the years for legitimate competitive reasons. *Twombly*, 550 U.S. at 553. Static Control's allegations with respect to the microchip redesign therefore also fail to establish antitrust standing for any cognizable antitrust injury.

4. Filing Suit

Lexmark further correctly observes that the act of filing suit generally does not constitute an antitrust injury under the *Noerr-Pennington* doctrine.[8] Second Appellee Br. at 47; *see E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (1965). Although exceptions are made when the filing is a sham for interfering with competition, the first inquiry for identifying sham litigation is objective reasonableness: "Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation." *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60

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[8] Static Control claims Lexmark's *Noerr-Pennington* argument is waived as it was not raised below and was raised on appeal only in a footnote. Third Appellant Br. at 7 n.3. However, "standing is a jurisdictional requirement that cannot be waived, and such may be brought up at any time in the proceeding." *Zurich Ins. Co. v. Logitrans, Inc.*, 297 F.3d 528, 531 (6th Cir. 2002).

(1993). We cannot say that Static Control has plausibly alleged that the 02 Action was "objectively meritless." *See* 02R. 172 (2d Am. Answer & Countercl. at ¶ 56). Static Control's allegations focus solely on Lexmark's intent behind bringing the copyright action; Static Control does not offer any allegations upon which we can plausibly conclude that the copyright action was "objectively meritless." The Sixth Circuit's ultimate conclusion that Lexmark lacked a valid copyright claim is not determinative of whether the initial suit was reasonable. *Prof'l Real Estate*, 508 U.S. at 60 n.5. We agree with Lexmark that its efforts in federal court, as alleged, should be immune from antitrust suit.

C. Antitrust Standing for Counterclaims Seeking Injunctive Relief

The Clayton Act also permits a private party to obtain injunctive relief "against threatened loss or damage by a violation of the antitrust laws." 15 U.S.C. § 26. The district court did not distinguish between Static Control's request for injunctive relief and its request for monetary damages when dismissing the counterclaim for lack of standing. *See* R. 392 (D. Ct. Order 9/28/06 at 12). Static Control argues that the district court separately erred in dismissing its claim for equitable relief because the last three *AGC* factors are inapplicable to whether a claimant has standing to seek injunctive relief. First Appellant Br. at 51. Lexmark argues that the standing requirements for obtaining injunctive relief are no different from the standing requirements for obtaining monetary relief when, as here, Static Control also seeks money damages. Second Appellant Br. at 56 ("The requirements for antitrust standing are the same

whether the antitrust plaintiff seeks damages only or damages and injunctive relief.").

The Clayton Act does not "authorize a private plaintiff to secure an injunction against a threatened injury for which he would not be entitled to compensation if the injury actually occurred." *Cargill, Inc. v. Monfort of Colo., Inc.*, 479 U.S. 104, 112 (1986). The only difference between a claim for equitable relief and one for damages is that equitable relief is available at the mere threat of antitrust injury. Because we have held that Static Control has failed to plead an antitrust injury, we affirm the dismissal of Static Control's claim for equitable relief. *See Valley Prods. Co. v. Landmark*, 128 F.3d 398, 402 (6th Cir. 1997).

V. STATIC CONTROL'S LANHAM ACT COUNTERCLAIM

Static Control contends that Lexmark violated the Lanham Act by engaging in false advertising. Static Control alleges that Lexmark "falsely informed customers that SCC's products infringe Lexmark's purported intellectual property," and "misled . . . customers of SCC's products that license agreements prohibit remanufacturing Lexmark toner cartridges, when no license agreements actually exist," causing Static Control's customers to believe that Static Control is engaging in illegal conduct and thereby damaging Static Control's business and reputation.[9] 02R. 172 (2d

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[9] The Lanham Act provides:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any

Am. Answer & Countercl. at ¶¶ 2, 84-90). The district court dismissed Static Control's counterclaim for lack of Lanham Act standing because Static Control lacked antitrust standing, holding that "[m]ultiple courts have held that the factors" for antitrust standing are the same as for Lanham Act standing. R. 392 (D. Ct. Order 9/28/06 at 13) (citing Fifth and Third Circuit cases).

Static Control maintains that the test "[i]n this Circuit" is "not the same as the . . . test for antitrust standing." First Appellant Br. at 53 (citing *Frisch's Rests., Inc. v. Elby's Big Boy of Steubenville, Inc.*, 670 F.2d 642, 649-50 (6th Cir.), *cert. denied*, 459 U.S. 916 (1982)). *Frisch's Restaurants* held that a Lanham Act claimant need not demonstrate actual losses as a result of the defendant's misleading use of the claimant's trademarks in its advertisements, only a "'likelihood of

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word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a)(1).

injury and causation.'" *Id.* at 650 (quoting *Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186, 190 (2d Cir. 1980)). Since *Frisch's Restaurants*, the Second Circuit has further described its approach, called the "reasonable interest" approach, as finding that the claimant has standing if the claimant can demonstrate "(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising." *Famous Horse, Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d Cir. 2010). We have not addressed Lanham Act standing since *Frisch's Restaurants*.

Lexmark urges us to follow one of the narrower approaches adopted by our sister circuits. The Seventh, Ninth, and Tenth use a categorical test, permitting Lanham Act suits only by an actual competitor making an unfair-competition claim. *L.S. Heath & Son, Inc. v. AT & T Info. Sys., Inc.*, 9 F.3d 561, 575 (7th Cir. 1993); *Waits v. Frito-Lay, Inc.*, 978 F.2d 1093, 1108-09 (9th Cir. 1992), *cert. denied*, 506 U.S. 1080 (1993); *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 873 (10th Cir.), *cert. denied*, 516 U.S. 920 (1995). These circuits, however, have distinguished the standing inquiry between claims of false association under 15 U.S.C. § 1125(a)(1)(A) and false advertising under § 1125(a)(1)(B) and do not require direct competition for claims of false association. *See e.g.*, *Waits*, 978 F.2d at 1108-09. Static Control's claim is for false advertising and would fail under this stricter standard, because Static Control and Lexmark are not actual competitors.

The Third, Fifth, Eighth, and Eleventh Circuits all reference antitrust standing or the *AGC* factors in deciding Lanham Act standing. *Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 233-34 (3d Cir. 1998) (Alito, J., authoring); *Procter & Gamble Co. v Amway Corp.*, 242 F.3d 539, 562-63 (5th Cir.), *cert. denied*, 534 U.S. 945 (2001); *Gilbert/Robinson, Inc. v. Carrie Beverage-Missouri, Inc.*, 989 F.2d 985, 990-91 (8th Cir.), *cert. denied*, 510 U.S. 928 (1993); *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156, 1162-64 (11th Cir. 2007), *cert. denied*, 552 U.S. 1275 (2008). The Third Circuit nominally uses a "reasonable interest" approach, but applies it by looking to the five *AGC* factors. *Conte Bros.*, 165 F.3d at 233-34. The Third Circuit has also rejected any distinction in standing between the two types of Lanham Act claims. *Id.* at 232. The Second Circuit's more recent cases reject the Third Circuit's conflation of the reasonable-interest test with the *AGC* factors as "unnecessarily complicat[ing] the inquiry," *Famous Horse*, 624 F.3d at 115 n.3, setting its approach apart. Therefore, Lexmark's statement that the reasonable interest test and the *AGC* test are not "conceptually different," Second Appellee Br. at 60, is not correct.

Although the claimant in *Frisch's Restaurants* brought a claim under 15 U.S.C. § 1125(a)(1)(A) for false association of trademark, not under § 1125(a)(1)(B) for false advertising, we agree with the Third Circuit's reasoned analysis rejecting a distinction between these two types of claims for purposes of standing. *Conte Bros.*, 165 F.3d at 232-33. Because we have already addressed the appropriate level of standing for claims brought under 15 U.S.C. § 1125(a), even if we were to prefer the approach taken by our

sister circuits, we cannot overturn a prior published decision of this court absent inconsistent Supreme Court precedent or an en banc reversal.[10] *Geiger v. Tower Auto.*, 579 F.3d 614, 622 (6th Cir. 2009). Static Control has therefore sufficiently alleged a Lanham Act claim. Static Control alleged a cognizable interest in its business reputation and sales to remanufacturers and sufficiently alleged that these interests were harmed by Lexmark's statements to the remanufacturers that Static Control was engaging in illegal conduct. This is sufficient to state a claim under the Lanham Act. We therefore **REVERSE** the district court's dismissal of this claim and **REMAND** with instructions to reinstate the Lanham Act claim.

VI. STATE-LAW COUNTERCLAIMS

The district court dismissed Static Control's counterclaims for unfair competition and false advertising under North Carolina law for lack of standing. Static Control appeals and agrees that

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[10] Even if we were to adopt the *AGC* factors, Static Control's claim would not necessarily fail. Although we have determined that Static Control failed to satisfy the *AGC* factors regarding its antitrust allegations, this does not necessarily mean Lanham Act standing would be lacking. Not all of Lexmark's conduct supposedly in violation of the Lanham Act is the same as the conduct supposedly violating the Sherman Act. In particular, Static Control alleges that Lexmark violated the LanhamAct when Lexmark falsely advertised that Static Control infringed Lexmark's patents. Because this was not part of Static Control's antitrust allegations, the district court at a minimum should have applied the *AGC* factors to Static Control's allegations of false advertising directly targeting Static Control (not just the Prebate program) and its injuries in conducting the five-factor analysis.

substantively the state law claims all "substantially mirror" the federal claims. First Appellant Br. at 54.[11]

The parties dispute whether standing under the North Carolina Unfair Deceptive Trade Practices Act ("NCUDTPA"), N.C. Gen. Stat. §§ 75-1, et seq., which is the statelaw equivalent of the Sherman, Clayton, and Lanham Acts, is identical to the standing requirements of the federal acts. The district court held that North Carolina had not yet decided the question, and applying "North Carolina's general rule that federal case law is persuasive and instructive in construing North Carolina's own antitrust statutes," the district court dismissed the state-law counterclaims "for the same reasons that it dismissed [Static Control's] federal claims above." R. 392 (D. Ct. Order 9/28/06 at 16). Static Control disagrees that the North Carolina standard is the same.

North Carolina has held that the *AGC* factors "do not apply in determining which indirect purchasers have standing to sue under the North Carolina antitrust statutes." *Teague v. Bayer AG*, 671 S.E.2d 550, 557 (N.C. Ct. App. 2009). Static Control is a supplier rather than an indirect purchaser, but Static

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[11] The district court also dismissed the state-law civil-conspiracy claim for lack of standing; however, Static Control has not raised this issue on appeal. Static Control mentioned in a footnote in its opening brief that the district court also erred in dismissing its state-law civil-conspiracy claim. First Appellant Br. at 56 n.14. Lexmark then pointed out the waiver, Second Appellee Br. at 62, and Static Control did not dispute the waiver or make any arguments on either waiver or the civil-conspiracy claim in its Third Brief.

Control argues that *Teague* supports the general proposition that North Carolina antitrust standing diverges from federal antitrust standing. Although ruling before *Teague* came down, the district court rejected the relevance of a similar case upon which *Teague* relied—*Hyde v. Abbott Labs., Inc.*, 473 S.E.2d 680, 681-82 (N.C. Ct. App.), *rev. denied*, 344 N.C. 734 (1996)—precisely because the present case did not involve an indirect purchaser. *Teague* does not state, as Static Control suggests, that antitrust standing under North Carolina law is generally more flexible than the equivalent federal law. We must therefore closely examine North Carolina's departure from federal law on the question of standing for indirect purchasers to determine whether North Carolina would similarly depart on the question of standing for suppliers.

In deciding to reject the federal test for standing for indirect purchasers, the North Carolina Court of Appeals examined the standing landscape when the North Carolina statute governing standing, N.C. Gen. Stat. §§ 75-16, was most recently substantively amended in 1969. *Hyde*, 473 S.E.2d at 684-85 (citing *Ill. Brick Co. v. Illinois*, 431 U.S. 720 (1977), and *Hanover Shoe, Inc. v. United Shoe Mach. Corp.*, 392 U.S. 481 (1968)). Because the amendments expanded the class of persons who could recover under the Act to all consumers, and indirect purchasers were frequently consumers, the court found it "unlikely" that the legislature intended to exclude indirect purchasers as a class. *Id.* at 684. Although acknowledging federal law as "persuasive authority" in interpreting North Carolina antitrust provisions, *id.* at 685, the court observed that most federal circuits permitted suit by

indirect purchasers in 1969 when the amendments were passed. The Supreme Court's decision in *Illinois Brick* that indirect purchasers lacked standing to bring antitrust claims was not issued until 1977. *Id.* at 683.

Applying the same considerations to the circumstances at hand, we believe North Carolina would grant standing to suppliers such as Static Control. Prior to 1969, the law, at least in the Sixth Circuit, was that suppliers like Static Control lacked standing. *See Volasco Prods. Co. v. Lloyd A. Fry Roofing Co.*, 308 F.2d 383, 395 (6th Cir. 1962) ("It is well established in the law that a supplier is too remote and too far removed from the direct injury to recover damages resulting from violation of the anti-trust laws directed against the supplier's customer."), *cert. denied*, 372 U.S. 907 (1963). However, the Fourth Circuit had declined to say that no supplier could bring a claim and followed what was previously known as the "target area" test for antitrust standing. *S.C. Milk Council of Milk Producers, Inc. v. Newton*, 360 F.2d 414, 418 (4th Cir.), *cert. denied*, 385 U.S. 934 (1966). The "target area" test gave antitrust standing to anyone who was within the zone of economic harm caused by the anticompetitive conduct whose harm was proximately caused by such conduct. *Id.*

In ruling that indirect purchasers were not subject to the *AGC* factors, the court in *Teague* emphasized the differences between cases involving indirect purchasers and those, such as *AGC* itself, that did not. *Teague*, 671 S.E.2d at 556 (rejecting analogies to *AGC* and other state cases applying *AGC* factors to state-law claims because they did not involve indirect purchasers). However, the *Hyde* court independently

rejected many of the concerns identified in *Illinois Brick* (and later repeated in *AGC*) as simply inapplicable to state-law antitrust statutes. *Hyde*, 473 S.E.2d at 687-88 (addressing issues of multiple liability, incentives to sue, and complexity of damages). Because the state of the law in 1969 in the Fourth Circuit appears more consistent with North Carolina's reasoning in *Hyde* than the Sixth Circuit's position on supplier standing in 1969, we conclude that North Carolina would not apply the *AGC* factors to cases like this one. As a result, Static Control's counterclaims under state law were incorrectly dismissed for lack of standing. We **REVERSE** and **REMAND** for further proceedings on these claims.

VII. IMPACT OF JURY VERDICT ON REMAND

Because we have reinstated some of Static Control's counterclaims, Static Control requests that we instruct the district court on remand to treat retroactively the advisory jury's findings that Lexmark misused its patents as binding jury findings. Lexmark unsurprisingly objects to this. The Seventh Amendment provides that "no fact tried by a jury, shall be otherwise reexamined in any Court of the United States." U.S. CONST. amend. VII. Static Control claims that presenting the reinstated antitrust claims now to a binding jury would violate this prohibition because these issues were already presented once to a jury, albeit an advisory one. Because those claims must be decided by a jury if reinstated, Static Control suggests that the only remedy to this problem is retroactively to call the advisory jury's findings of fact

binding, as opposed to proceeding with a new trial before a new, binding jury.[12]

The differences between the defense of patent misuse and affirmative state-law antitrust claims or a Lanham Act claim notwithstanding, we decline to deem an advisory jury's findings binding retroactively. *See Hildebrand v. Bd. of Trs. of Mich. State Univ.*, 607 F.2d 705, 710 (6th Cir. 1979) ("To convert a trial from a jury trial to a bench trial (or vice-versa) in the middle of the proceedings is to interfere with counsel's presentation of their case and, quite possibly, to prejudice one side or the other."); *Fischer Imaging Corp. v. Gen. Elec. Co.*, 187 F.3d 1165, 1174 (10th Cir. 1999) (rejecting argument by claimant that advisory jury's verdict should retroactively become binding); *Pradier v. Elespuru*, 641 F.2d 808, 811 (9th Cir. 1981) (noting significant tactical differences in litigating before an advisory jury). Although here the tactical differences are minimal given that the change to an advisory jury occurred when the district court gave the final jury instructions, we decline to speculate as to whether the change in the jury's instruction altered the jury's

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[12] Static Control is right that if a district court erroneously dismisses a legal claim otherwise entitled to a jury determination, any subsequent findings of fact by the judge must be vacated and the claim relitigated before a jury. *Lytle v. Household Mfg., Inc.*, 494 U.S. 545, 552-53 (1990). That procedural posture, however, is not present in this case. Nonetheless, when a party has the right to a jury determination on an issue under the Seventh Amendment, there is ample precedent that an advisory jury does not satisfy that requirement. *See Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 337 n. 24 (1979) ("[A]n advisory jury . . . would not in any event have been a Seventh Amendment jury.").

analysis of the issue Static Control now seeks to treat as binding. *Cf. Romano v. Oklahoma*, 512 U.S. 1, 8-9 (1994) (holding that court may not "mislead the jury as to its role in the sentencing process in a way that allows the jury to feel less responsible than it should for the sentencing decision.") (internal quotation marks omitted). We therefore decline Static Control's request.

VIII. LEXMARK'S PATENT COUNTERCLAIMS

Lexmark counterclaimed in the 04 Action that Static Control induced the remanufacturers to infringe several patents relating to Lexmark's toner cartridges. At trial, the jury determined that Lexmark had failed to meet its burden of showing direct infringement by Static Control's customers as a class and its burden of showing Static Control induced infringement by the three named remanufacturers already held to be direct infringers. Following the trial, Lexmark renewed a motion for judgment as a matter of law and filed a motion for a new trial on whether the jury's verdict was unreasonable in light of the evidence of direct infringement by the class, which the district court denied. Lexmark also sought a new trial on the issue of inducement after the district court excluded questions at trial relating to the procurement of opinion-of counsel letters, which the district court also denied. Lexmark appeals these rulings, and we affirm. Lexmark also appeals an earlier ruling by the district court on summary judgment that Lexmark's design patents were invalid as a matter of law, which we also affirm.

A. Standards of Review

We review de novo a district court's decision to deny a motion for a judgment as a matter of law under Federal Rule of Civil Procedure 50. *Mike's Train House, Inc. v. Lionel, L.L.C.*, 472 F.3d 398, 405 (6th Cir. 2006). A renewed motion for a judgment as a matter of law following an adverse jury verdict "may only be granted if, when viewing the evidence in a light most favorable to the non-moving party, giving that party the benefit of all reasonable inferences . . . reasonable minds could come to but one conclusion in favor of the moving party." *Barnes v. City of Cincinnati*, 401 F.3d 729, 736 (6th Cir.), *cert. denied*, 546 U.S. 1003 (2005). Judgment as a matter of law is appropriate only where there is no "legally sufficient evidentiary basis" for a reasonable jury "to find for the [non-moving] party on that issue." Fed. R. Civ. P. 50(a)(1). We will not substitute our interpretation of the evidence for the jury's, even if we would have reached a different conclusion. *Barnes*, 401 F.3d at 738.

We review for abuse of discretion a district court's decision to deny a motion for a new trial under Federal Rule of Civil Procedure 59. *Mike's Train House*, 472 F.3d at 405. A new trial is warranted after a jury verdict "for any reason for which a new trial has heretofore been granted in an action at law in federal court." Fed. R. Civ. P. 59(a). We have previously held that a new trial is appropriate when the jury reaches a "seriously erroneous result as evidenced by (1) the verdict being against the [clear] weight of the evidence; (2) the damages being excessive; or (3) the trial being unfair to the moving party in some fashion, i.e., the proceedings being influenced by prejudice or bias."

Mike's Train House, 472 F.3d at 405 (internal quotation marks and alterations omitted) (quoting *Holmes v. City of Massillon*, 78 F.3d 1041, 1045-46 (6th Cir.), *cert. denied*, 519 U.S. 935 (1996)); *see also Barnes v. Owens-Corning Fiberglas Corp.*, 201 F.3d 815, 820 (6th Cir. 2000) (new trial appropriate only if "verdict is against the clear weight of the evidence"). Lexmark's argument relies on the first and third of these potential errors.

We review de novo a district court's grant of summary judgment. *Int'l Union v. Cummins, Inc.*, 434 F.3d 478, 483 (6th Cir. 2006). The moving party is entitled to summary judgment when there is no genuine issue of material fact and the issue may be resolved as a matter of law. Fed. R. Civ. P. 56(a). The evidence on summary judgment must be construed in the light most favorable to the non-moving party. *Matsushita*, 475 U.S. at 587. When genuine issues of material fact remain, the proper course of action is to submit such questions to the finder of fact.

B. Evidence of Direct Infringement by Static Control's Customers as a Class

Lexmark argues on appeal that the evidence established as a matter of law that Static Control's customers as a class directly infringed Lexmark's patents. Lexmark seeks to overturn the jury's verdict to the contrary. To establish a claim for patent inducement under 35 U.S.C. § 271(b), Lexmark bore the burden of showing by a preponderance of the evidence that (1) Static Control's customers directly infringed Lexmark's patents; (2) Static Control took active steps that induced the customers' infringement;

(3) Static Control intended the customers to take the infringing acts; and (4) Static Control knew or willfully disregarded the risk that those actions by its customers would constitute direct infringement. *See Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2065-67 (2011). Patent infringement by a third-party is therefore a necessary predicate to inducement to infringe.

A plaintiff can establish the first element of inducement to infringe either by demonstrating "specific instances of direct infringement or a finding that the accused products necessarily infringe." *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1322 (Fed. Cir. 2009), *cert. denied*, 130 S. Ct. 3324 (2010); *see alsoDynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1275-76 (Fed. Cir. 2004) (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 441 (1984)); 5 DONALD S. CHISUM, CHISUM ON PATENTS § 17.04[1] (2011). When the plaintiff can show only individual instances of direct infringement, the plaintiff may recover only for the damages from those individual acts. *Dynacore*, 363 F.3d at 1274. If the plaintiff can show an entire class of customers necessarily infringed, damages can be sought more broadly across the entire class. *Id.*

Direct patent infringement occurs under 35 U.S.C. § 271(a) when someone "(1) without authority (2) makes, uses, offers to sell, sells, or imports (3) the patented invention (4) within the United States, its territories, or its possessions (5) during the term of the patent." HERBERT F. SCHWARTZ & ROBERT J. GOLDMAN, PATENT LAW AND PRACTICE 163-64 (6th ed. 2008); *see also Global-Tech*, 131 S. Ct. at 2065 n.2 ("Direct

infringement has long been understood to require no more than the unauthorized use of a patented invention."). Determining whether someone is making, using, or selling a patented invention "requires a finding that the patent claim covers the alleged infringer's product or process," *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 374 (1996) (internal quotation marks omitted). The determination that a patent's claims cover a specific device is often referred to as "literal infringement." SCHWARTZ, *supra*, at 174. Literal infringement alone is not enough to support a claim for inducement, because the predicate to inducement is a violation of 35 U.S.C. § 271(a), which requires more than that the accused devices literally infringe. For example, a party could not be liable for inducing infringement if an accused device literally infringed a patent claim but the literal infringer had authority to use the patent or a patent had otherwise expired, thereby defeating a determination of direct patent infringement. *See, e.g.*, *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 483 (1964) (sustaining claim for contributory infringement upon determining that user of patented item lacked authorization, thereby directly infringing).

An accused device will necessarily infringe, permitting a finding of direct infringement by a class of customers and an inference that the inducer intended the infringement, if the "customers can only use the [defendant's] products in an infringing way." *Symantec Corp. v. Computer Assocs. Int'l, Inc.*, 522 F.3d 1279, 1293 (Fed. Cir. 2008) (reversing summary judgment on inducement because plaintiff did not need to show specific instances of direct infringement when defendants' product could not be used in a

non-infringing way); *see also Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 932 (2005) ("[W]here an article is good for nothing else but infringement, there is no injustice in presuming or imputing an intent to infringe.") (internal quotation marks and citation omitted). When an accused device could be used in either an infringing or a non-infringing way, a claim of direct infringement based on necessary infringement fails and cannot sustain an inducement claim. *ACCO Brands, Inc. v. ABA Locks Mfr. Co.*, 501 F.3d 1307, 1313-14 (Fed. Cir. 2007) (reversing jury verdict of inducement to infringe patented method because no evidence of direct infringement and accused product could be used in either an infringing or a non-infringing way); CHISUM, *supra*, § 17.04[1].

Prior to the jury's verdict, the district court granted summary judgment to Lexmark on whether the three named remanufacturers—Wazana, NER, and Pendl—directly infringed Lexmark's nine valid mechanical patents. R. 1245 (D. Ct. Order 5/31/07) (holding direct infringement); R. 1008 (D. Ct. Order 4/24/07 at 48-49) (holding mechanical patents valid). Lexmark had therefore established the necessary predicate to inducement, but could recover only for those three remanufacturers' infringement unless Lexmark could demonstrate that all of Static Control's customers as a class necessarily infringed. The question of direct infringement by Static Control's customers as a class was submitted to the jury, which held that Lexmark had failed to meet its burden. R. 1366 (Special Verdict Form at 1). The district court denied Lexmark's renewed motion for a judgment as a matter of law and also Lexmark's motion for a new

trial on this issue, finding that the evidence in support of Lexmark did not compel a different result. The district court upheld the jury's verdict because "[t]hough Lexmark presented evidence of infringement by Static Control's customers, that evidence was not so overwhelming that reasonable people could come to but one conclusion." R. 1430 (D. Ct. Order 10/03/08 at 9).

Lexmark argues that the district court erroneously conflated the direct-infringement inquiry, which Lexmark must establish, with the affirmative defense of patent exhaustion, which Static Control must establish. Lexmark offered as circumstantial evidence of infringement by the class the testimony of an expert establishing that the toner cartridges remanufactured by Wazana, NER, and Pendl all literally infringed the claims present in the nine mechanical patents. Although Lexmark offered no testimony regarding specific cartridges from other remanufacturers, Static Control has not argued or even suggested that the unidentified remanufacturers' cartridges did not literally infringe at least some of the more than one hundred patent claims that cover the original cartridges. Instead, Static Control argues that Lexmark confuses literal infringement with direct infringement, and, as the district court held, some of the toner cartridges could not sustain a claim for direct infringement because they were sold domestically first, thereby exhausting Lexmark's patent rights. Third Appellant Br. at 40-41. Lexmark has conceded that its patent rights were exhausted in the non-Prebate cartridges sold first in the United States and certain cartridges sold to IBM customers.

Part of the problem here is that the jury instructions never defined what it means for a party to "directly infringe" a patent. Lexmark maintains that when the jury was asked to decide whether Static Control's customers as a class "directly infringed," the question must have related solely to whether the remanufactured toner cartridges as a class literally infringed, because Static Control's sole arguments against direct infringement related to patent exhaustion, which was delineated as a separate question on the jury's special-verdict form. R. 1366 (Special Verdict Form at 1, 4). Lexmark is theoretically correct—exhaustion of a patentee's rights is a defense to direct infringement and is not the same as establishing a non-infringing use of a patented device, which would defeat a finding that Static Control's customers necessarily infringed the patents. However, this distinction was never clearly made to the jury.

Lexmark's claim fails upon closer examination of the jury's instructions. The jury instructions explicitly suggested that patent exhaustion would defeat a finding of "direct" infringement, as opposed to operating only as a defense following a showing of direct infringement:

> I instruct you that there are at least two kinds of uses of microchips made by Static Control that are lawful and *do not directly infringe* any Lexmark patent. . . . The first non-infringing use of Static Control's microchips is in the remanufacture of Non-Prebate Lexmark cartridges that were first sold by Lexmark in the United States. Static Control has no liability for active inducement of infringement when its

> microchips are used in those cartridges because those cartridges may be lawfully remanufactured by anyone *without directly infringing* any patent rights of Lexmark.

R. 1365 (Jury Instructions at 18) (emphasis added). The district court then gave the same instruction with respect to the IBM cartridges. Although Lexmark is correct that exhaustion should be an affirmative defense,[13] at no point did Lexmark object to the district court's statement that exhausted cartridges could not "directly infringe" Lexmark's patents. *See* R. 1119 (Lexmark's Objections to Proposed Jury Instructions); R. 1171 (Jury Instructions Hr'g Tr.); R. 1361 (Joint Proposed Corrections to Final Instructions).

Jurors are presumed to be "diligent in following the precise instructions given to them." *United States v. Tosh*, 330 F.3d 836, 842 (6th Cir. 2003). The evidence presented by Lexmark was not so strong as to prevent a reasonable juror from concluding that some members of the class remanufactured cartridges in a non-infringing manner, as defined by the district court. With two categories of cartridges that categorically did not "directly infringe," according to the jury instructions, the jury reasonably could have concluded Lexmark had not met its burden of showing that the remanufacturers as a class "necessarily infringed" Lexmark's patents by remanufacturing exhausted

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[13] The jury instructions later also define exhaustion as Static Control's burden, using the exact same categories of cartridges the jury was previously instructed did not "directly infringe." R. 1365 (Jury Instructions at 25-26).

cartridges. *See ACCO Brands*, 501 F.3d at 1313 ("Because the accused device can be used at any given time in a noninfringing manner, the accused device does not necessarily infringe the [plaintiff's] patent."). Nor was Lexmark's circumstantial evidence of literal infringement sufficient to compel a conclusion that all of Static Control's customers literally infringed, even if this were an appropriate inquiry. Lexmark's own expert, Dr. Reinholtz, stated that he examined remanufactured cartridges from only the three named companies and did not know if other companies' remanufactured cartridges literally infringed. R. 1216 (Trial Tr. 5/25/07 at 42-43). Although this may have been sufficient circumstantial evidence to sustain a jury verdict of infringement, the evidence certainly does not compel one. As a result, Lexmark was not entitled to judgment as a matter of law or a new trial on the issue of whether Static Control's customers directly infringed as a class. *Barnes*, 401 F. 3d at 736 (holding post-trial judgment as a matter of law improper unless "reasonable minds could come to but one conclusion in favor of the moving party"); *Owens-Corning*, 201 F.3d at 821 (holding new trial improper "if a reasonable juror could have reached the challenged verdict").

C. Excluded Evidence Relating to Intent to Induce Infringement

Lexmark claims that it was entitled to a new trial on the issue of inducement of the three direct infringers because the district court erroneously excluded certain questions relating to opinion-of-counsel letters at trial,

rendering the proceedings unfair. We review for abuse of discretion.[14]

At trial, Lexmark was not allowed to ask Static Control's CEO explicitly whether Static Control had ever obtained a legal opinion regarding potential patent or antitrust violations. R. 1269 (Trial Tr. at 108-09). Static Control objected to the presentation of evidence relating to Static Control's failure to obtain advice of counsel, even though Static Control had made available to third parties advice of counsel on the issue of whether Prebate violated contract law.[15] R. 1269

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[14] Lexmark suggests on appeal that the entirety of the jury's verdict on inducement was "unreasonable and against the weight of the evidence." Second Appellee Br. at 32. This argument, however, is briefed in the context of the excluded opinion-of-counsel letter and only further elaborated upon in Reply. Despite Lexmark's apparent waiver of this issue, the merits of the sufficiency-of-the-evidence argument is discussed herein due to its relevance to the opinion-of-counsel issue.

[15] Static Control's general counsel had previously obtained a legal opinion letter regarding the illegality of Lexmark's Prebate program under principles of property and contract law. Static Control provided this letter to its customers as assurance that "Prebate does not create any legal barrier to the purchase and reuse by others of 'prebate' cartridges." J.A. at 1280 (Letter from Static Control). The letter from counsel stated that it "does not deal with the application of either patent law or antitrust law" to Lexmark's Prebate program. However, despite this assertion, the letter includes a short paragraph stating that counsel "see[s] nothing in either area of [patent or antitrust] law that would raise any questions about my conclusion [and] there are doctrines in both areas of law that might well prevent the successful adoption by any manufacturer" of a program to prevent reuse of toner cartridges. *Id.* at 1286.

(Trial Tr. 06/04/07 at 108-09). The district court agreed and instructed the witness not to answer. Lexmark claims that it was "manifestly unfair" to permit the CEO to testify regarding the procurement of exculpatory advice from counsel but not permit Lexmark "to identify failures to procure such advice as circumstantial evidence of intent to infringe." Second Appellee Br. at 34 (quoting *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008)).

Lexmark's argument on appeal relies heavily on *Broadcom*, 543 F.3d 683, a Federal Circuit case issued after trial but before the district court ruled on Lexmark's motion. *Broadcom* held that "[i]t would be manifestly unfair to allow opinion-of-counsel evidence to serve an exculpatory function . . . and yet not permit patentees to identify failures to procure such advice as circumstantial evidence of intent to infringe." *Broadcom*, 543 F.3d at 699. Although *Broadcom* appears to support Lexmark's position, the district court ruled against Lexmark, *see* R. 1521 (D. Ct. Op. & Order at 16-19), after reading *Broadcom* in the context of the Federal Circuit's prior ruling in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc), which held that it would be "inappropriate to draw a[n] . . . adverse inference from failure to consult counsel" when an accused infringer was under no obligation in the first place to obtain advice of counsel on whether it was infringing. *Id.* at 1345.

We need not decide whether a party's failure to obtain an opinion-of-counsel letter may ever constitute circumstantial evidence of the requisite intent to induce infringement. Even if we assume that this

evidence was wrongly excluded, the best-case scenario for Lexmark—a negative answer to the forbidden question—would not have changed the jury's verdict on this issue.

Lexmark bore the burden of establishing by a preponderance of the evidence that Static Control had the requisite intent to induce infringement. The Supreme Court has recently clarified that this means that the alleged inducer must intend the customers to take the acts that ultimately constituted infringement and the inducer must know or willfully disregard the risk that those actions by its customers would constitute direct infringement. *See Global-Tech*, 131 S. Ct. at 2065. By way of analogy, the Supreme Court compared a used-car salesman who encouraged a customer to buy a car that later turned out to be damaged to a used-car salesman who encouraged a customer to buy a car knowing it was damaged; we fault the latter more than the former.

Lexmark correctly explains that "advertising infringing uses, instructing how to engage in infringing uses, demonstrating infringing uses, and recommending infringing uses is strong evidence of specific intent to cause the actions that constitute direct infringement." Second Appellee Br. at 31 (citing *Grokster*, 545 U.S. at 936). But, given the jury instructions that delineated certain cartridges as non-infringing, Lexmark's evidence needed to show that Static Control advertised, instructed, or otherwise recommended the remanufacture of *infringing* cartridges, which at the time of trial were the Prebate cartridges and the cartridges first sold outside the United States. Lexmark's proof, however, is not

compelling enough for us to find that the district court abused its discretion in upholding the jury verdict.

Lexmark argues that it presented specific evidence demonstrating that Static Control encouraged and instructed remanufacturers to remanufacture Prebate cartridges and cartridges first sold overseas, the two categories not deemed "non-infringing" at trial. But the testimony primarily indicated that Static Control encouraged and instructed its customers to remanufacture cartridges generally and such instructions did not distinguish between foreign or domestic-sold cartridges or Prebate cartridges. *See, e.g.*, R. 1242 (Trial Tr. 5/30/07 at 37-38) (testimony from Static Control that instructions would enable remanufacture of cartridges, including Prebate); id. at 121-22 (testimony from NER that Static Control did not differentiate between Prebate and non-Prebate at tradeshows). However, Static Control offered testimony that its instructions contained explicit warnings not to use the Static Control chips on Prebate cartridges unless they were first sold in North Carolina after October 1, 2003,[16] and not for resale in the United States. *See, e.g.*, J.A. at 657 (Instructions for Replacement Chip). And employees of Static Control were under strict instructions to repeat those conditions to any customer who called to inquire about the microchips. R. 1285 (Trial Tr. 6/6/07 at 88-89). Although Lexmark offered testimony that there was

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[16] North Carolina passed a law in October 2003 that Static Control believed made Prebate restrictions unenforceable in North Carolina. The jury was instructed that these cartridges could not infringe. R. 1365 (Jury Instructions at 19).

simply no way for a remanufacturer to distinguish between a foreign-sold cartridge and a United States cartridge just by looking at the cartridge, *id.* at 155, Static Control offered testimony that the remanufacturers could determine origin by inquiring at the time of acquisition, *id.* at 88. The jury was best situated to weigh the competing evidence and determine whether Static Control had the requisite intent to induce the infringing acts. The evidence offered by Lexmark may have been sufficient to sustain a jury finding of inducement; however, this evidence certainly does not compel such a finding when the jury has rejected it.

The excluded question during Static Control's CEO's testimony does not change this calculus. Lexmark inflates the significance of the exclusion. Static Control's CEO was asked if he "ever had an outside patent attorney . . . give you advice on the issue of single-use patent licenses," to which the CEO responded in the negative. R. 1269 (Trial Tr. 6/4/07 at 94). He was then asked explicitly whether he sought out legal counsel relating to Prebate, and the CEO answered affirmatively that he "sought advice about prebate cartridges that had been either put into the landfill or were on the way to the landfill." *Id.* at 95. When asked if that was all he sought advice on, he unequivocally said "Yes." *Id.* It was only when counsel later asked specifically whether Static Control sought advice relating to patent or antitrust law that Static Control objected and the district court instructed the witness not to answer. *Id.* 108-09. And despite this exclusion in the CEO's testimony, Static Control's general counsel was asked about and specifically discussed concerns over patent-law issues, including

whether or not Static Control's actions could constitute inducement to infringe. R. 1242 (Trial Tr. 5/30/07 at 249-50, 263-65, 272-73).

Lexmark bore the burden of establishing Static Control's knowledge or willful blindness to the underlying infringing acts. Based on the related evidence already on the record, we cannot conclude that the jury would have reached a different conclusion had the jury been told that Static Control failed to obtain an opinion-of-counsel letter specifically on issues of patent law. The exclusion of this potential evidence was harmless in light of the other elements that Lexmark failed to establish by a preponderance of the evidence. *See Bridgeport Music, Inc. v. Justin Combs Publ'g*, 507 F.3d 470, 481 (6th Cir. 2007), *cert. denied*, 555 U.S. 818 (2008).

D. Exhaustion of Prebate Cartridges

Lexmark also challenges the district court's post-trial ruling holding that Lexmark's sale of Prebate cartridges exhausted its patent rights in their cartridges. The relief Lexmark seeks on this issue, however, is unclear. Whether the Prebate agreement prevented the exhaustion of Lexmark's patent rights as a matter of law does not change the outcome of the jury trial, because at the time of trial the district court had ruled favorably to Lexmark that Prebate cartridges prevented exhaustion. R. 1008 (D. Ct. Order 4/24/07). Thus, unlike the non-Prebate cartridges sold in the United States and the IBM cartridges, the jury was never instructed that Prebate cartridges could not serve the basis for direct infringement by Static Control's customers as a class. Nor does the question

of exhaustion bear in any way on the jury's verdict that Static Control did not induce the direct infringement by Wazana, Pendl, and NER. We therefore decline to resolve this extremely complex and unsettled question, because it would have no relevance to the outcome of this appeal.

E. Design-Patent Invalidity

The district court held on summary judgment that two of Lexmark's design patents relating to the appearance of its toner cartridges—D399,249 and D458,300—were invalid. R. 1008 (D. Ct. Order 4/24/07). Patent invalidity is a defense to a claim for patent infringement. 35 U.S.C. § 282. As a result of this ruling, the issue of whether any party directly infringed Lexmark's design patents or induced someone else to infringe was never decided. Lexmark appeals, and we affirm.

All patents are presumed valid, and the burden of overcoming this presumption rests on the party seeking invalidity. 35 U.S.C. § 282; *Campbell v. Spectrum Automation Co.*, 513 F.2d 932, 935-36 (6th Cir. 1975). Invalidity must be established by clear and convincing evidence. *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2243 (2011). Patent validity is a question of law. *Schnadig Corp. v. Gaines Mfg. Co.*, 494 F.2d 383, 387-88 (6th Cir. 1974). However, where legal analysis rests on factual findings, we will not reverse such findings absent clear error. *Id.* at 388.

Design patents are issued to whoever "invents any new, original and ornamental design for an article of manufacture." 35 U.S.C. § 171; *Schnadig*, 494 F.2d at

387 ("To be patentable a design must be new, original, ornamental and nonobvious."). A design patent is not ornamental if the design serves only functional purposes. In other words, "[a] design patent cannot be obtained to protect a mechanical function or cover an article whose configuration affects its utility alone." *Kwik-Site Corp. v. Clear View Mfg. Co.*, 758 F.2d 167, 171 (6th Cir. 1985) (internal quotation marks and emphasis omitted) (holding design patent for rifle scope mount invalid because configuration served solely functional purposes); *Fuji Kogyo Co. v. Pacific Bay Int'l, Inc.*, 461 F.3d 675, 683 (6th Cir. 2006) ("[I]f the particular design is essential to the use of the article, it can not be the subject of a design patent.") (internal quotation marks omitted), *cert. denied*, 549 U.S. 1252 (2007). An article is less likely to be ornamental if it is not observed, and the Federal Circuit looks not just to whether the article is ever seen but whether the *appearance* of the article may become a "matter of concern" at any point during the article's "normal and intended use." *In re Webb*, 916 F.2d 1553, 1558 (Fed. Cir. 1990) (holding design of hip implants could be patented because even though not seen during normal use the "design[was] clearly intended to be noticed during the process of sale.").

The district court held that Lexmark's design patents were invalid because the design of Lexmark's toner cartridges was primarily functional and "the appearance of Lexmark's printer cartridges in question are [sic] of no matter of concern during those cartridges' entire existence." R. 1008 (D. Ct. Order 4/24/07 at 10-11). The design of the cartridges was primarily functional because the design of the printer dictated the exact design of the cartridge. *Id.* at 13-14

(citing *Best Lock Corp. v. Ilco Unican Corp.*, 94 F.3d 1563, 1566 (Fed. Cir. 1996) (holding design of key not patentable because dictated by function, i.e., the design of the corresponding lock)). And even though the cartridges may be seen at some point during their lifetime, at no point was their appearance a matter of concern to the end-user. *Id.* at 11 (citing *In re Stevens*, 173 F.2d 1015, 1019-20 (C.C.P.A. 1949)).

Lexmark claims that the district court improperly shifted the burden of proof onto Lexmark to show validity and improperly credited disputed issues of fact in Static Control's favor. Lexmark does not dispute the general proposition that to establish invalidity, the infringer must show "that consumers do not consider [the patented design] to be significant." Second Appellee Br. at 36 (quoting *Int'l Seaway Trading Corp. v. Walgreens Corp.*, 589 F.3d 1233, 1242 (Fed. Cir. 2009)). Lexmark objects to the lack of survey evidence showing consumers do not consider Lexmark's cartridge appearance to be a matter of concern and argues that the district court ignored the presence of photographs of the cartridges on the website where the cartridges were sold and on the cartridge boxes. Lexmark argues that this determination is an issue of fact subject to genuine dispute and therefore inappropriate on summary judgment.

The district court applied the correct standard and evaluated the undisputed facts offered by Static Control establishing that the design of the cartridges

was functional and not ornamental.[17] The toner cartridges are visible to users at some points, but are generally hidden from view inside the printer. Their design is dictated solely by the printer with which they are compatible. Lexmark itself explained that the advertisements containing photographs were primarily to assist the customer in selecting the cartridge that was *compatible* with the printer they owned. R. 506 (Lexmark's Opp. to Summ. J. at 10). The cartridges' appearance had no other role in the purchaser's decision of which cartridge to purchase. "[T]he purpose of the statute is to give encouragement to the decorative arts. It contemplates not so much utility as appearance." *Cavu Clothes, Inc. v. Squires, Inc.*, 184 F.2d 30, 32 (6th Cir. 1950) (citing *Gorham Mfg. Co. v. White*, 81 U.S. 511, 524 (1871)).

On appeal, Lexmark does not attempt to dispute any of these material facts, arguing instead that Static Control should have presented *more* evidence, such as consumer surveys, and suggesting that the presence of photographs of the product should be enough to create a dispute over whether appearance matters. Second Appellee Br. at 36-37. Although we make all inferences in favor of Lexmark on this issue, Static Control has demonstrated by undisputed clear and convincing evidence that the design patents were invalid.

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[17] Lexmark relies heavily on the district court's statement that "Lexmark fail[ed] to set forth any evidence," R. 1008 (D. Ct. Order 4/24/07 at 15). The district court recited at length Static Control's burden and applied it to the facts. *Id.* at 9-15. The district court appears to have been emphasizing that Lexmark's suggestion that there were open issues of fact was unsupported by any actual evidence.

Lexmark has not pointed to any genuine fact disputes that would undermine this conclusion. We therefore **AFFIRM** the district court's holding that Lexmark's design patents are invalid.

IX. CONCLUSION

For the aforementioned reasons, we **AFFIRM** the district court on all claims except the dismissal of some of Static Control's counterclaims under the Lanham Act and North Carolina state law, which we **REVERSE** and **REMAND** for further proceedings consistent with this opinion.

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

Nos. 09-6287/6288/6449

[Filed August 29, 2012]

STATIC CONTROL COMPONENTS, INC., Plaintiff-Appellant/Cross-Appellee,	)
v.	)
LEXMARK INTERNATIONAL, INC., Defendant-Appellee/Cross-Appellant.	)

Before: KEITH, BOGGS, and MOORE, Circuit Judges.

JUDGMENT

On Appeal from the United States District Court for the Eastern District of Kentucky at Lexington.

THIS CAUSE was heard on the record from the district court and was argued by counsel.

IN CONSIDERATION WHEREOF, it is ORDERED that the district court's dismissal of Static Control's claims under the Latham Act and certain claims under North Carolina state law is REVERSED, and the case is REMANDED for further proceedings consistent with the opinion of this court. IT IS FURTHER ORDERED that the district court's judgment on all other claims

and its dismissal of Static Control's federal antitrust claims are AFFIRMED.

ENTERED BY ORDER OF THE COURT

/s/Leonard Green
Leonard Green, Clerk

APPENDIX B

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
LEXINGTON DIVISION

CONSOLIDATED CIVIL ACTION NOS. 02-571 AND 04-84

[Filed September 28, 2006]

STATIC CONTROL COMPONENTS, INC., ET AL.	)
Plaintiffs,	)
V.	)
LEXMARK INTERNATIONAL, INC., ET AL.	)
Defendants.	)

ORDER

*** *** *** ***

Lexmark's Motion to Dismiss the Counterclaim of Defendant Static Control Components, Inc., ["SCC"] and to Strike Certain Affirmative Defenses is before the Court for consideration. [R. 176, Case No. 04-84].

For the reasons set forth below, the Court will grant Lexmark's motion in part and deny the motion in part. Specifically, the Court will dismiss SCC's Counterclaim [tendered at R. 169, Case No. 02-571, and admitted at R. 172, Case No. 02-571] in its entirety and deny Lexmark's request to strike or dismiss certain affirmative defenses that SCC asserts in its Answer to Lexmark's Complaint in Case No. 5:02-571.

II.

BACKGROUND

Briefly, the status of the parties is as follows. Lexmark is a large producer of printers and toner cartridges for its printers. SCC is "a leading supplier to toner cartridge remanufacturers." [R. 172 at 16, Case No. 02-571]. The remanufacturers, some of which are also parties to these consolidated cases, take used toner cartridges, repair them, refill the toner, et cetera and resell the cartridges to end-user consumers. SCC sells to the remanufacturers parts and supplies for reworking the used toner cartridges, such as replacement parts, toner, and microchips. [R. 1, Case No. 04-84]. Lexmark and SCC first began litigation in this Court in 2002 when Lexmark filed suit against SCC, alleging, *inter alia*, that SCC's sale of "SMARTEK" microchips infringed on Lexmark's copyrighted "Toner Loading Programs." [R. 1, Case No. 02-571]. In 2004, SCC filed a declaratory judgment action, alleging, *inter alia*, that its new "re-engineered" microchips did not infringe on any of Lexmark's copyrights. The cases were ultimately consolidated with Case No. 5:04-84 as the lead case. [R. 140, Case No. 04-84].

SCC's Counterclaim to Lexmark's Complaint in Case No. 5:02-571 sets forth seven "Claims for Relief." [R. 172 at 25-34, Case No. 02-571]. All of SCC's claims are predicated on the same factual allegations, incorporated by reference in SCC's Claims for Relief and summarized as follows: SCC alleges that Lexmark's "anticompetitive conduct" includes the following:

> (a) a conspiracy by Lexmark and its microchip suppliers to restrain trade, including refusals to deal with SCC and competitors, that has restricted output and increased prices;
> (b) a conspiracy by Lexmark, microchip suppliers, and resellers of Lexmark-manufactured printers to monopolize the relevant markets; and
> (c) Lexmark's unilateral monopolization and attempted monopolization of the relevant markets.

[R. 172 at 13-14, Case No. 02-571].

Throughout the rest of SCC's factual allegations in its Counterclaim, SCC largely focuses on two major categories of Lexmark's alleged behavior:

First, Lexmark runs what it called at one time its "Prebate Program." In that program, Lexmark's customers buy printer cartridges at an up-front discount in exchange for the customer agreeing to use the cartridge only once and then returning the empty cartridge only to Lexmark. According to Lexmark, Lexmark offers "'[r]egular' toner cartridge[s] for those customers who do not choose the Prebate/Cartridge

Return Program toner cartridge[s] with [their] terms." [R. 2 at 8, Case No. 04-84]. Regarding this program, SCC alleges, *inter alia*, that the program "creates a sham restrictive license between Lexmark and the customer or end-user" that "has the intended effect of excluding competition and increasing prices to consumers in the relevant markets by restricting the supply of Lexmark toner cartridges." [R. 172 at 17, 19, Case No. 02-571].

Second, SCC takes exception to the incorporation of microchips into some types of Lexmark printer cartridges. The microchips allegedly function to "exclude competitors from the relevant markets . . .," because without the microchips, Lexmark toner cartridges will not function in Lexmark's relevant printers. Therefore, SCC refers to the microchips as "anticompetitive." SCC claims that Lexmark and its microchip suppliers "refuse to deal with SCC and other competitors to supply such a microchip," although SCC currently sells its own microchips to remanufacturers. The microchips that SCC currently sells work like Lexmark's chips to enable a remanufactured toner cartridge to work properly with the relevant Lexmark printer. [R. 172 at 20-21, Case No. 02-571; R. 1, Case No. 04-84].

SCC's seven claims for relief specifically are as follows: SCC alleges that Lexmark has conducted itself in a variety of ways as referenced above that constitute anti-competitive behavior, and these behaviors are the basis of SCC's Sherman and Clayton Act antitrust claims in its First and Second Claims for Relief. *Id.* at 25-28; 15 U.S.C. §§ 1, 2, 15. The first count essentially alleges a conspiracy to unreasonably restrain interstate

commerce; the second is a claim for conspiracy to monopolize the market for replacement toner cartridges for several of Lexmark printer families and (attempted) monopolization in said market. [R. 172 at 26-28, Case No. 02-571]; [R. 182 at 2, Case No. 04-84]. SCC's Third Claim for Relief is for Lexmark's alleged violation of the Lanham Act, 15 U.S.C. § 1125(a), and specifically for false advertising, product libel, and unfair competition under the Act. [R. 172 at 28-29, Case No. 02-571]. SCC's Fourth, Fifth, and Sixth Claims for Relief track SCC's first three claims, except that the later claims are state statutory causes of action under North Carolina's Unfair and Deceptive Trade Practice Act, N.C. Gen. Stat. § 75-1, *et seq*. Finally, SCC in its Seventh Claim for Relief alleges that Lexmark committed civil conspiracy to accomplish the allegedly illegal acts that serve as the foundation for SCC's previous claims. [R. 172 at 34, Case No. 02-571].

In its current motion, Lexmark predominantly argues that SCC lacks the requisite standing to maintain its claims. The Court agrees.

II.

DISCUSSION

A. Elements of Standing

In order for a plaintiff to assert a claim for the violation of antitrust laws, the plaintiff must first demonstrate that it has suffered an "injury in fact," or a concrete and particularized harm. That injury-in-fact must also be an "antitrust injury" or an injury caused

by a "restraint on competitive forces in the economy." *Axis, S.p.A. v. Micafil, Inc.*, 870 F.2d 1105, 1110-11 (6th Cir. 1989); *see also In re Cardizem CD Antitrust Litigation*, 332 F.3d 896, 912 (6th Cir. 2003) (the alleged antitrust violation(s) must either be a necessary predicate to plaintiff's harm or the plaintiff must show that its harm could only have occurred by the defendant violating antitrust law) (citing *Hodges v. WSM, Inc.*, 26 F.3d 36, 39 (6th Cir. 1994)).

In addition to the above requirement, antitrust law embodies certain notions of prudential standing: "application of § 4 [of the Clayton Act, which makes antitrust violations subject to private suit,] has of necessity been judicially confined to limit the remedy available thereunder to particular classes of persons and for redress of particular forms of injury." *Southhaven Land Co. v. Malone & Hyde, Inc.*, 715 F.2d 1079, 1081 (6th Cir. 1983) (citations omitted). In addressing prudential antitrust standing, courts have historically utilized a variety of tests to determine whether, for instance, a plaintiff's antitrust claim is too remote or indirect from the alleged antitrust violation to maintain the suit or whether the plaintiff is in the "zone of interest" sought to be protected by antitrust laws. *Id.* This Court must evaluate prudential standing pursuant to the factors set forth by the Supreme Court, as further set forth below, in *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983) (followed in *Southhaven* at 1085-86).

B. SCC's Antitrust Claims

1. The Supreme Court has Abrogated Historical Brightline Tests for Determining Prudential Standing under Antitrust Law

Lexmark argues that suppliers of antitrust violators' competitors lack standing *per se* and relies on a 1962 Sixth Circuit case, holding that "[i]t is well established in the law that a supplier is too remote and too far removed from the direct injury to recover damages resulting from violation of the anti-trust laws directed against the supplier's customer." *Volasco Products Co. v. Lloyd A. Fry Roofing Co.*, 308 F.2d 383, 395 (6th Cir. 1962); [R. 191 at 5, Case No. 04-84]. Thereafter, the Ninth Circuit in *In re Multidistrict Vehicle Air Pollution M. D. L. No. 31* criticized the "direct injury" test, stating, *inter alia*, that the test leads to the denial of standing "by attaching conclusory labels such as 'remote', 'indirect', and 'consequential.'" 481 F.2d 122, 127 (9th Cir. 1973). The court went on to state, "[T]he 'direct injury' requirement has engendered among some adherents a regrettable tendency to deny standing to any plaintiff who happens to fall within certain talismanic rubrics." *Id.* The court adopted what is known as the "target area" approach to standing, which focuses on the "claimant's relationship to the area of the economy allegedly injured by the defendant." *Id.* at 127-28.

The Supreme Court favorably cited *In re Multidistrict Vehicle Air Pollution* when stating that a certain plaintiff had antitrust standing, in part because she was "'within that area of the economy . . .

endangered by [that] breakdown of competitive conditions' resulting from" the defendant's actions. *Blue Shield of Va. v. McCready*, 457 U.S. 465, 480-81 (1982). The Sixth Circuit had previously criticized *In re Multidistrict Vehicle Air Pollution*, but reevaluated its position in light of *Blue Shield* and another Supreme Court case on antitrust standing, *Associated Gen. Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983). *Southhaven Land Co., Inc. v. Malone & Hyde, Inc.*, 715 F.2d 1079, 1083 (6th Cir. 1983). *Southhaven* confirms that there is no longer an analytical "test," such the direct injury test, zone of interest test, or target area test, for making determinations regarding antitrust standing, and the courts are to "'analyze each situation in light of the factors set forth in'" *Associated Gen. Contractors of California* on a case by case basis. *Id.* at 1085-86. Therefore, no per se rule prevents a supplier of an antitrust violator's competitor in a relevant market from attaining antitrust standing. While a supplier may still have difficulty attaining standing under the *Associated Gen. Contractors* factors as discussed below, to the extent that *Volasco* espouses a per se rule on a supplier's standing, the case has been supplanted by the Supreme Court.

In *Southhaven*, the Sixth Circuit concisely lists the *Associated Gen. Contractors* factors to consider when evaluating antitrust standing:

> The "factors" expressly identified as such in the text [of *Associated Gen. Contractors*] include, *inter alia*, (1) the causal connection between the antitrust violation and harm to the plaintiff and whether that harm was intended to be caused;

> (2) the nature of the plaintiff's alleged injury including the status of the plaintiff as consumer or competitor in the relevant market; (3) the directness or indirectness of the injury, and the related inquiry of whether the damages are speculative; (4) the potential for duplicative recovery or complex apportionment of damages; and (5) the existence of more direct victims of the alleged antitrust violation.

Id. at 1085. "No single factor is dispositive of the issue; rather all factors must be carefully balanced." *Province v. Cleveland Press Pub. Co.*, 787 F.2d 1047, 1051 (6th Cir. 1986).

2. First *Associated General Contractors* Factor: Causal Connection and Intent to Harm

The first *Associated Gen. Contractors* factor is "the causal connection between the antitrust violation and harm to the plaintiff and whether that harm was intended to be caused." First, the Court will examine SCC's averment that Lexmark has hampered remanufacturing by incorporating "anticompetitive microchips" into its cartridges. Lexmark avers and, with respect to SCC, the Court agrees that by incorporating microchips into its cartridges, Lexmark has *created*, rather than restrained, a market for microchips. Regardless of the effect that the microchips have on remanufacturers, SCC has profited by selling microchips that enable remanufacturers to rework functioning Lexmark cartridges. [*See* R. 176, Attach. 1, at 33, and R. 1, Case No. 04-84]. Therefore, SCC has not been sufficiently harmed, if at all, for

there to be a "causal connection between the antitrust violation and harm to the plaintiff." Because SCC is selling microchips for Lexmark cartridges, SCC has not been injured-in-fact, let alone suffered an antitrust injury, in order to support SCC's claim that Lexmark conspired with its microchip suppliers to refuse to deal with SCC.[1] Similarly, to the extent that the "anticompetitive microchips" are in and of themselves an antitrust violation, SCC has profited from that antitrust violation by selling its own microchips.

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[1] Lexmark also makes the argument that it has created, rather than restrained, the market for its remanufactured cartridges. Essentially, if Lexmark were not in business or made its cartridges incapable of remanufacture, then there would be no market in remanufactured Lexmark cartridges. [R. 176, Attach. 1, at 34-35, Case No. 04-84]. This argument is distinguishable from the facially-similar argument in the microchip context, in which SCC has profited by Lexmark's alleged antitrust activity of introducing "anticompetitive microchips." "[I]n order to survive a motion to dismiss for failure to allege antitrust injury, a plaintiff must allege *either*: (1) that the antitrust violation was 'a necessary predicate' to their injury; *or* (2) that the defendant could injure plaintiffs only by engaging in the antitrust violation." *In re Cardizem CD Antitrust Litigation*, 332 F.3d 896, 912 (6th Cir. 2003) (emphasis in original) (citing *Hodges v. WSM, Inc.*, 26 F.3d 36, 39 (6th Cir. 1994)). While SCC cannot plead that Lexmark "could injure SCC only by engaging in the antitrust violation," SCC does argue that, the *Associated Gen. Contractors* factors aside, Lexmark's alleged conduct has caused an injury-in-fact, and but for Lexmark's alleged illegal activities, SCC would not have been injured. *See NicSand, Inc. v. 3M Co.*, 457 F.3d 534, 2006 U.S. App. LEXIS 20321, at *43 (6th. Cir. Aug. 8, 2006) (Plaintiff's "claims satisfy the necessary predicate test because it is not 'apparent from the face of the complaint that actual and unequivocally legal action by [the defendant] would have'—as opposed to *could* have—'caused [Plaintiff's] injury, even if there had been no antitrust violation.")

The Court is aware that Lexmark seeks to enjoin SCC from producing and selling microchips with the technology necessary to make remanufactured cartridges compatible with Lexmark printers. [R. 1, Case No. 02-571]. The merits of Lexmark's claims are not currently before the Court. However, the current reality is that, whether legal or not, SCC is selling microchips to remanufacturers for fitting in Lexmark cartridges.

Concerning SCC's allegations regarding Lexmark's Prebate Program, SCC's own averments lead the Court to conclude that the "target" of the Prebate Program is Lexmark's end-using customers and the relationship between those customers and remanufacturers or intermediate brokers of used Lexmark cartridges. SCC alleges: "Because Lexmark sells virtually all its toner cartridges with the Prebate label, its program has the intended effect of excluding competition and increasing prices to consumers in the relevant markets by restricting the supply of Lexmark toner cartridges." [R. 172 at 17, Case No. 02-571]. Essentially, SCC argues that Lexmark manipulates end cartridge users through its Prebate program by discouraging those users from supplying remanufacturers with the used cartridges that the remanufacturers need to operate. To the extent that SCC has alleged an injury-in-fact, the injury-in-fact is the collateral injury of loss of sales to remanufacturers who cannot get the supplies necessary to meet demand, and therefore, pursuant to the *Associated Gen. Contractors* first factor, Lexmark allegedly intends harm to the remanufacturers, not SCC.

SCC also avers that "Lexmark is revoking the status of authorized service providers because Lexmark does not want competitive remanufactured toner cartridges available in the relevant markets. If an authorized service provider remanufacturers toner cartridges, Lexmark terminates that service provider's certification." [R. 172 at 23, Case No. 02-571]. Again, the Court finds it apparent that the alleged intended injury here is to remanufacturers, against whom Lexmark allegedly retaliates by revoking their service provider's certification.

3. Second *Associated General Contractors* Factor: Nature of the Injury and Plaintiff's Status in the Relevant Market

The second *Associated Gen. Contractors* factor is "the nature of the plaintiff's alleged injury including the status of the plaintiff as consumer or competitor in the relevant market." *Southhaven* at 1085. SCC claims that it directly competes with Lexmark in three different markets: the toner "cartridges market", the "microchips (for use in cartridges) market", and the "(cartridge) components market." Lexmark disagrees and argues that it alone participates in the cartridges market and SCC alone participates in the microchip and components markets. [R. 191 at 1-2, Case No. 04-84]. "The essential test for ascertaining the relevant product market involves the identification of those products or services that are either (1) identical to or (2) available substitutes for the defendant's product or service." *White & White, Inc. v. American Hospital Supply Corp.*, 723 F.2d 495, 500 (6th Cir. 1983) (citing *United States v. E.I. DuPont de Nemours & Co.*, 351 U.S. 377 (1956)). Lexmark's consumers generally have

no need for and would not buy SCC's products, namely unintegrated cartridge microchips and cartridge parts. Likewise, SCC's customers, those in the business of remanufacturing cartridges, have no need for the complete, ready-for-end-use toner cartridges that Lexmark sells. Therefore, Lexmark and SCC simply are not direct competitors under the *E.I. DuPont de Nemours* test.

The Sixth Circuit has further defined the second *Associated Gen. Contractors* factor—the "relevant market" antitrust standing factor—as follows:

> [A] finding that the plaintiffs were not direct participants in the relevant market does not automatically preclude Section 4 standing. The court in *Southhaven* indicated that a plaintiff can also satisfy this aspect of the inquiry by showing that plaintiff's injury is 'inextricably intertwined' with the injury sought to be inflicted on the relevant market. *Southhaven*, 715 F.2d at 1086. To be inextricably intertwined with the injury to competition, the plaintiffs must have been 'manipulated or utilized by [the] defendant as a fulcrum, conduit or market force to injure competitors or participants in the relevant product and geographical market.'

Province v. Cleveland Press Pub. Co., 787 F.2d 1047, 1052 (6th Cir. 1986). No evidence suggests that SCC was utilized by Lexmark as a conduit or market force to injure the remanufacturers of Lexmark's cartridges. Rather, SCC alleges that Lexmark has attempted to hurt the remanufacturers by drying up supplies at the consumer level, or from the bottom up, rather than at

the supply level, or from the top down. SCC states, "Lexmark's anticompetitive exploitation of consumers' and end-users' lack of adequate information increases prices and reduces output in the relevant markets." [R. 172 at 18, Case No. 02-571]. If anyone is being manipulated according to SCC's allegations, it is the end consumer. To paraphrase the Sixth Circuit, Lexmark's "anticompetitive scheme required no active participation by" SCC. *Bodie-Rickett & Assoc. v. Mars, Inc.*, 957 F.2d 287, 292 (6th Cir. 1992).

4. Third *Associated General Contractors* Factor: Directness of the Injury

The third *Associated Gen. Contractors* factor is "the directness of the injury and whether damages are speculative." SCC claims that it has suffered actual damages by Lexmark "diverting sales from SCC to Lexmark and inhibiting SCC from effectively competing in the relevant markets." [R. 172, Case No. 02-571]. The damages alleged by SCC, damages "in excess of $18 million," are somewhat speculative in nature in that the supposed damages could possibly arise from independent market decisions of remanufacturers and end users of cartridges. If, for instance, a major customer of SCC chooses to manufacture its own replacement parts, switches to another supplier, decreases production in cartridge remanufacturing to focus on another income generator or deceases production as a result of poor management, then SCC's bottom line will decrease despite what Lexmark may or may not do. Although how market forces or legal competition has affected SCC is speculative, the Court simply highlights that Lexmark's alleged conduct more directly affects

remanufacturers and end users, and SCC's damages must be viewed with those third-parties' independent behaviors in mind.

5. Fifth *Associated General Contractors* Factor: More Direct Victims

The Court finds the most important factor in this case to be "the existence of more direct victims of the alleged antitrust violation," specifically end users of Lexmark cartridges and Lexmark's direct competitors, the remanufacturers of Lexmark's cartridges. SCC's own Counterclaim is replete with accusations of how Lexmark has directly harmed end consumers and remanufacturers.[2] This is also not a situation in which a more direct victim of antitrust activity might not

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[2] Examples include:

(1) "Lexmark specifically launched its Prebate program to intimidate and to exclude competition from remanufacturers." [R. 172, Case No. 02-571 at 16].

(2) "Lexmark has threatened suing its competitors that remanufacture prebate toner cartridges." *Id.* at 17.

(3) Lexmark's Prebate program "has the intended effect of excluding competition and increasing prices to consumers in the relevant markets by restricting the supply of Lexmark toner cartridges." *Id.*

(4) "Lexmark purposefully misleads end-users to believe that they have a restricted license on Lexmark toner cartridges . . . and that the license requires customers and end-users to purchase toner cartridges only from Lexmark." *Id.* at 18.

(5) "By using the sham Prebate license to deceive customers . . ., Lexmark misuses its patent rights to preserve, maintain, and enhance its unlawful monopoly in the relevant markets." *Id.* at 19.

(6) "Lexmark isolates and targets customers and end-users that prefer to use remanufactured toner cartridges . . . ." *Id.*

bring an antitrust claim because of pragmatic reasons, such as any one potential plaintiff having too little economic interest to make litigation a reasonable avenue of redress. Rather, Pendl Companies, Inc. and Wazana Brothers Int'l, Inc., remanufacturers of Lexmark's cartridges, maintain antitrust claims against Lexmark in this very action. [R. 107, 144, 175, Case No. 04-84; *see also* the related pending case of *Lexmark International, Inc. v. Abraham*, Case No. 5:04-456, R. 73, in which Clarity Imaging Technologies, Inc. counterclaims against Lexmark for alleged Sherman Act violations].

Upon balancing the *Associated Gen. Contractors* factors, the Court finds that SCC does not have the antitrust standing required to bring its first and second claims for relief, namely a claim under Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2, as made civilly actionable by Section 4 of the Clayton Act, 15 U.S.C. § 15. [R. 172 at 25-28, Case No. 02-571].

C. SCC's Lanham Act Claim

SCC's Third Claim for Relief alleges a violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), for "false advertising, product libel, and unfair competition." [R. 172 at 28-29, Case No. 02-571]. The claim is presumably based on the "Prebate agreement" that Lexmark prints on each of its "Prebate cartridges", which states: "Patented cartridge sold at a special price subject to a restriction that it may be used only once, and you agree to then return the empty cartridge only to Lexmark." Again, in its Lanham Act claim, SCC alleges that Lexmark manipulates end cartridge users through its Prebate program by discouraging those

users from supplying remanufacturers with the spent cartridges that the remanufacturers need to operate. [*See, e.g.*, R. 172 at 17-18]. The factual predicate for SCC's Lanham Act claim is the same as for SCC's antitrust claims. *Id.* at 9-25.

Multiple courts have held that the factors a court is to consider when determining prudential standing for antitrust claims, specifically by applying the *Associated Gen. Contractors* factors, is the same analysis that courts should undertake for determining standing to sue under the Lanham Act. *See, e.g., Proctor & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 562-63 (5th Cir. 2001); *Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 233 (3rd Cir. 1998). For the same reasons that SCC lacks standing to pursue its antitrust claims, *supra*, the Court will dismiss its Lanham Act claim. *See Valley Products Co. v. Landmark*, 877 F. Supp. 1087, 1094 n.10 (W.D. Tenn. 1994) ("[P]laintiffs' . . . Lanham Act claim is also dismissed because that claim is contingent on the success of the Sherman and Clayton Act federal antitrust claims."), *aff'd*, 128 F.3d 398 (6th Cir. 1997). Those reasons include, *inter alia*, the existence of more direct plaintiffs in the form of remanufacturers of Lexmark's cartridges, one of which is asserting a Lanham Act claim in this litigation [R. 175, Case No. 04-84]; the remoteness of the injury to SCC—the alleged injury being a byproduct of the supposed manipulation of consumers' relationships with remanufacturers (or intermediate cartridge brokers); and Lexmark's alleged intent is to dry up spent cartridge supplies at the remanufacturing level, rather than at SCC's supply level, making remanufacturers Lexmark's alleged intended target.

D. SCC's State Law Claims

SCC brings three additional claims based on the North Carolina Unfair and Deceptive Trade Practices Act, N.C. Gen. Stat. § 75-1, *et seq*. These claims are predicated on the same factual allegations made regarding SCC's federal claims above. SCC's Fourth Claim for Relief pursuant to N.C. Gen. Stat. § 75-1 mirrors SCC's First Claim for Relief regarding unreasonable restraint of commerce under the Sherman Act; SCC's Sixth Claim for Relief pursuant to N.C. Gen. Stat. § 75-2.1 mirrors SCC's Second Claim for Relief, regarding, *inter alia*, monopolization under the Sherman Act; and SCC's Fifth Claim for Relief for unfair and deceptive trade practices pursuant to N.C. Gen. Stat. § 75-1.1 is similar to SCC's Lanham Act claim, its Third Claim for Relief. [R. 172 at 29- 34].

SCC directs the Court's attention to *Coker v. Daimlerchrysler Corp.*, 617 S.E.2d 306, 310 (N.C. Ct. App. 2005), for the proposition that North Carolina's Unfair and Deceptive Trade Practices Act, which includes provisions similar to the Sherman, Clayton, and Lanham Acts, only requires an injury-in-fact to assert standing. SCC's reliance on *Coker* is misplaced for two reasons: first, the court of appeals noted that for the plaintiff to suffer an injury-in-fact is the "'irreducible constitutional minimum' of standing" and went on to hold that the plaintiff had not shown an injury-in-fact. Therefore, the *Coker* court was not required, nor did it, address the issue of prudential standing for antitrust and unfair trade practices claims. Second, *Coker* dealt with the issue of a defendant misrepresenting the characteristics of a minivan that the plaintiffs purchased; the

misrepresentation was directly between the parties to the suit. Here, even through SCC alleges injuries-in-fact, those injuries are attenuated and filtered through Lexmark's alleged targeting of third-parties, namely end-users who believe the Prebate program is binding and therefore cause a reduction in the number of used cartridges available to remanufacturers for reworking. *Coker* is simply not helpful under the current circumstances.

SCC also cites *Hyde v. Abbott Lab., Inc.*, in which the North Carolina Court of Appeals held that in 1969 the North Carolina General Assembly amended N.C. Gen. Stat. § 75-16 in a way that allows indirect purchasers to bring suit under Chapter 75, North Carolina's Unfair and Deceptive Trade Practices Act. 123 N.C. App. 572, 578-79 (N.C. Ct. App. 1996). The Supreme Court of North Carolina had previously found that the intent of the amendment was "'to establish an effective private cause of action for aggrieved consumers in [North Carolina].'" *Id.* at 577 (citing *Winston Realty Co. v. G.H.G., Inc.*, 331 S.E.2d 677, 680 (N.C. 1985)). In holding that the 1969 amendment also enabled indirect purchasers to bring suit, the *Hyde* court stated that "we consider as persuasive authority federal cases interpreting the federal antitrust laws as they existed in 1969," and the court went on to find that the federal cases at the time generally permitted antitrust suits by indirect purchasers. *Id.* at 578-79.

Hyde only deals with indirect purchasers, and therefore, is not on point in the current case. Indirect purchasers, although they purchase goods through a middleman rather than directly from an alleged

antitrust violator, are consumers nonetheless.[3] The second prudential standing factor to consider under federal law today—the nature of the plaintiff's alleged injury including the status of the plaintiff as consumer or competitor in the relevant market—directs the courts to factor in the party's status as a consumer. *Southhaven Land Co., Inc. v. Malone & Hyde, Inc.*, 715 F.2d 1079, 1085 (6th Cir. 1983). SCC in the current action is the supplier to some of Lexmark's competitors. As such, *Hyde* is not controlling.

North Carolina courts have simply not considered the requirements of prudential standing to bring suit under its Unfair and Deceptive Trade Practices Act in the context of a supplier to an antitrust violator's competitors. Therefore, the Court will apply North Carolina's general rule that federal case law is persuasive and instructive in construing North Carolina's own antitrust statutes. *See, e.g., Madison Cablevision v. City of Morgantown*, 386 S.E.2d 200, 213-14 (N.C. 1989). As such, the Court will dismiss SCC's three state law counterclaims for the same reasons that it dismissed SCC's federal claims above.[4]

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[3] Specifically in *Hyde* the plaintiffs were indirect purchasers of infant formula, "because they purchased infant formula through parties other than the manufacturer [and the alleged antitrust violator]." *Hyde* at 574.

[4] Lexmark raises a conflict of laws issue regarding SCC's state law claims, arguing that Kentucky antitrust law mirrors Federal antitrust law and should be applied in this case. The Court has a number of reservations concerning this argument, foremost of which is that Kentucky simply has not developed any law concerning North Carolina's Unfair and Deceptive Trade Practices Act; Kentucky has only interpreted its own antitrust statutes, and

E. SCC's Claim for Civil Conspiracy

SCC's final claim for relief—its Seventh—is a claim for civil conspiracy. Because the claim is predicated on the alleged antitrust and/or Lanham violations discussed above, including, *inter alia*, an alleged conspiracy between Lexmark and its microchip suppliers to refuse to deal with SCC, the Court will also dismiss this Seventh Claim for Relief.

F. SCC's Affirmative Defenses

Lexmark finally moves the Court to dismiss or strike SCC's affirmative defenses. Lexmark's motion on this point appears to be somewhat of an afterthought to the crux of its motion, a motion to dismiss SCC's counterclaims.[5] [R. 176, Attach. 1, at 39, Case No. 04-84]. The Court would only note that having the requisite standing to assert antitrust and Lanham Act claims is inherently different than defending oneself from suit. *See, e.g., Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990) ("a misuse [of copyright] need not be a violation of antitrust law in

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therefore Kentucky's "substantive" law concerning SCC's North Carolina statutory claims likely would be to defer to the North Carolina courts' rulings on the statutes. In any event, because the Court finds that SCC lacks standing to bring its state claims pursuant to North Carolina's law, the Court need not force the conflicts of law issue.

[5] Lexmark's motion is styled in part as a motion "to strike certain affirmative defenses," but Lexmark does not specifically state to which of SCC's fifteen affirmative defenses it objects. [R. 176, Attach. 1, at 39, Case No. 04-84; R. 172 at 6-8, Case No. 02-571].

order to comprise an equitable defense to an infringement action"). While the Court makes no judgment as to the merits of SCC's affirmative defenses, at this juncture the Court will let them stand.

G. SCC's Motion for Leave to File a Supplemental Brief

SCC has also moved the Court to supplement its Response to Lexmark's Motion to Dismiss. [R. 357]. First, SCC states that one of Lexmark's experts has apparently referred to SCC as a "competitive threat" to Lexmark, though the expert thereafter stated "SCC is not a direct competitor of Lexmark." Second, SCC cites to the Sixth Circuit case of *NicSand, Inc. v. 3M Co.*, decided after the current motion was briefed by the parties. 457 F.3d 534, 2006 U.S. App. LEXIS 20321, at *40-41 (6th. Cir. Aug. 8, 2006). This Court's opinion is consistent with the holdings in *NicSand*. The Court has in fact cited the case in footnote one of this opinion. Ultimately, the tendered supplemental brief adds nothing of substance to warrant the Court to change its opinion to grant Lexmark's Motion to Dismiss, and SCC's Motion for Leave to File a Supplemental Brief will be denied.

III.

CONCLUSION

For the reasons stated herein, it is hereby **ORDERED** that Lexmark's Motion to Dismiss the Counterclaim of Defendant Static Control Components, Inc. and to Strike Certain Affirmative Defenses is

GRANTED in part and **DENIED** in part [R. 176, Case No. 04-84] as follows:

(1) Lexmark's demand to dismiss SCC's Counterclaim is **GRANTED** and said Counterclaim [tendered at R. 169, Case No. 02-571, and admitted at R. 172, Case No. 02-571] is so **DISMISSED**;

(2) Lexmark's demand to strike or dismiss certain of SCC's affirmative defenses in SCC's Second Amended Answer [tendered at R. 169, Case No. 02-571, and admitted at R. 172, Case No. 02-571] is **DENIED**; and

(3) SCC's Motion for Leave to File a Supplemental Brief [R. 357] is **DENIED**.

This the 28th day of September, 2006.

Signed By:

Gregory F. Van Tatenhove

United States District Judge

APPENDIX C

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Nos. 09-6287/6288/6449

[Filed October 26, 2012]

STATIC CONTROL COMPONENTS, INC.,	)
	)
Plaintiff-Appellant/Cross-Appellee,	)
	)
v.	)
	)
LEXMARK INTERNATIONAL, INC.,	)
	)
Defendant-Appellee/Cross-Appellant.	)
	)

ORDER

BEFORE: KEITH, BOGGS, and MOORE, Circuit Judges.

The court having received a petition for rehearing en banc, and the petition having been circulated not only to the original panel members but also to all other active judges of this court, and no judge of this court having requested a vote on the suggestion for rehearing en banc, the petition for rehearing has been referred to the original panel.

The panel has further reviewed the petition for rehearing and concludes that the issues raised in the petition were fully considered upon the original submission and decision of the cases. Accordingly, the petition is denied.

ENTERED BY ORDER OF THE COURT

/s/ _____
Deborah S. Hunt, Clerk

APPENDIX D

STATUTORY PROVISION INVOLVED

15 U.S.C. § 1125

§ 1125. False designations of origin, false descriptions, and dilution forbidden

(a) Civil action

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(2) As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

(3) In a civil action for trade dress infringement under this chapter for trade dress not registered on the principal register, the person who asserts trade dress protection has the burden of proving that the matter sought to be protected is not functional.

(b) Importation

Any goods marked or labeled in contravention of the provisions of this section shall not be imported into the United States or admitted to entry at any customhouse of the United States. The owner, importer, or consignee of goods refused entry at any customhouse under this section may have any recourse by protest or appeal that is given under the customs revenue laws or may have the remedy given by this chapter in cases involving goods refused entry or seized.

(c) Dilution by blurring; dilution by tarnishment

(1) Injunctive relief

Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

(2) Definitions

(A) For purposes of paragraph (1), a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner. In determining whether a mark possesses the requisite degree of recognition, the court may consider all relevant factors, including the following:

(i) The duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties.

(ii) The amount, volume, and geographic extent of sales of goods or services offered under the mark.

(iii) The extent of actual recognition of the mark.

(iv) Whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

(B) For purposes of paragraph (1), "dilution by blurring" is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark. In determining whether a mark or trade name is likely to cause dilution by blurring, the court may consider all relevant factors, including the following:

(i) The degree of similarity between the mark or trade name and the famous mark.

(ii) The degree of inherent or acquired distinctiveness of the famous mark.

(iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.

(iv) The degree of recognition of the famous mark.

(v) Whether the user of the mark or trade name intended to create an association with the famous mark.

(vi) Any actual association between the mark or trade name and the famous mark.

(C) For purposes of paragraph (1), "dilution by tarnishment" is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.

(3) Exclusions

The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:

(A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services, including use in connection with—

(i) advertising or promotion that permits consumers to compare goods or services; or

(ii) identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.

(B) All forms of news reporting and news commentary.

(C) Any noncommercial use of a mark.

(4) Burden of proof

In a civil action for trade dress dilution under this chapter for trade dress not registered on the principal register, the person who asserts trade dress protection has the burden of proving that—

(A) the claimed trade dress, taken as a whole, is not functional and is famous; and

(B) if the claimed trade dress includes any mark or marks registered on the principal register, the unregistered matter, taken as a whole, is famous separate and apart from any fame of such registered marks.

(5) Additional remedies

In an action brought under this subsection, the owner of the famous mark shall be entitled to injunctive relief as set forth in section 1116 of this title. The owner of the famous mark shall also be entitled to the remedies set forth in sections 1117(a) and 1118 of this title, subject to the discretion of the court and the principles of equity if—

(A) the mark or trade name that is likely to cause dilution by blurring or dilution by tarnishment was first used in commerce by the person against whom the injunction is sought after October 6, 2006; and

(B) in a claim arising under this subsection—

(i) by reason of dilution by blurring, the person against whom the injunction is sought willfully intended to trade on the recognition of the famous mark; or

(ii) by reason of dilution by tarnishment, the person against whom the injunction is sought willfully intended to harm the reputation of the famous mark.

(6) Ownership of valid registration a complete bar to action

The ownership by a person of a valid registration under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register under this chapter shall be a complete bar to an action against that person, with respect to that mark, that—

(A)(i) is brought by another person under the common law or a statute of a State; and

(ii) seeks to prevent dilution by blurring or dilution by tarnishment; or

(B) asserts any claim of actual or likely damage or harm to the distinctiveness or reputation of a mark, label, or form of advertisement.

(7) Savings clause

Nothing in this subsection shall be construed to impair, modify, or supersede the applicability of the patent laws of the United States.

(d) Cyberpiracy prevention

(1)(A) A person shall be liable in a civil action by the owner of a mark, including a personal name which is protected as a mark under this section, if, without regard to the goods or services of the parties, that person—

(i) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and

(ii) registers, traffics in, or uses a domain name that—

(I) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark;

(II) in the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark; or

(III) is a trademark, word, or name protected by reason of section 706 of title 18 or section 220506 of title 36.

(B)(i) In determining whether a person has a bad faith intent described under subparagraph (A), a court may consider factors such as, but not limited to—

> **(I)** the trademark or other intellectual property rights of the person, if any, in the domain name;
>
> **(II)** the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;
>
> **(III)** the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;
>
> **(IV)** the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;
>
> **(V)** the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;
>
> **(VI)** the person's offer to transfer, sell, or otherwise assign the domain name to

the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct;

(VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct;

(VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and

(IX) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection (c).

(ii) Bad faith intent described under subparagraph (A) shall not be found in any case in which the court determines that the

person believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful.

(C) In any civil action involving the registration, trafficking, or use of a domain name under this paragraph, a court may order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark.

(D) A person shall be liable for using a domain name under subparagraph (A) only if that person is the domain name registrant or that registrant's authorized licensee.

(E) As used in this paragraph, the term "traffics in" refers to transactions that include, but are not limited to, sales, purchases, loans, pledges, licenses, exchanges of currency, and any other transfer for consideration or receipt in exchange for consideration.

(2)(A) The owner of a mark may file an in rem civil action against a domain name in the judicial district in which the domain name registrar, domain name registry, or other domain name authority that registered or assigned the domain name is located if—

(i) the domain name violates any right of the owner of a mark registered in the Patent and Trademark Office, or protected under subsection (a) or (c) of this section; and

(ii) the court finds that the owner—

(I) is not able to obtain in personam jurisdiction over a person who would have been a defendant in a civil action under paragraph (1); or

(II) through due diligence was not able to find a person who would have been a defendant in a civil action under paragraph (1) by—

(aa) sending a notice of the alleged violation and intent to proceed under this paragraph to the registrant of the domain name at the postal and e-mail address provided by the registrant to the registrar; and

(bb) publishing notice of the action as the court may direct promptly after filing the action.

(B) The actions under subparagraph (A)(ii) shall constitute service of process.

(C) In an in rem action under this paragraph, a domain name shall be deemed to have its situs in the judicial district in which—

(i) the domain name registrar, registry, or other domain name authority that registered or assigned the domain name is located; or

(ii) documents sufficient to establish control and authority regarding the disposition of

the registration and use of the domain name are deposited with the court.

(D)(i) The remedies in an in rem action under this paragraph shall be limited to a court order for the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark. Upon receipt of written notification of a filed, stamped copy of a complaint filed by the owner of a mark in a United States district court under this paragraph, the domain name registrar, domain name registry, or other domain name authority shall—

(I) expeditiously deposit with the court documents sufficient to establish the court's control and authority regarding the disposition of the registration and use of the domain name to the court; and

(II) not transfer, suspend, or otherwise modify the domain name during the pendency of the action, except upon order of the court.

(ii) The domain name registrar or registry or other domain name authority shall not be liable for injunctive or monetary relief under this paragraph except in the case of bad faith or reckless disregard, which includes a willful failure to comply with any such court order.

(3) The civil action established under paragraph (1) and the in rem action established under paragraph (2), and any remedy available under either such action, shall be in addition to any other civil action or remedy otherwise applicable.

(4) The in rem jurisdiction established under paragraph (2) shall be in addition to any other jurisdiction that otherwise exists, whether in rem or in personam.

OPPOSITION BRIEF

No. 12-873

IN THE

Supreme Court of the United States

LEXMARK INTERNATIONAL, INC.,

Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF IN OPPOSITION

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QUESTION PRESENTED

Section 43(a) of the Lanham Act gives a right of action "to any person who believes that he or she is or is likely to be damaged" by another's "false or misleading representation of fact" in "commercial advertising or promotion . . . ." 15 U.S.C. § 1125(a)(1)(B).

The question presented is: Does a plaintiff have prudential standing, at the pleading stage, under Section 43(a) of the Lanham Act where the plaintiff alleges that the defendant directly targeted the plaintiff with false advertising statements about plaintiff's products that had the effects of diverting sales from plaintiff to defendant and tarnishing plaintiff's goodwill?

CORPORATE DISCLOSURE STATEMENT

Under Supreme Court Rule 29.6, Static Control Components, Inc. states it has no parent corporation, and no publicly held company owns 10% or more of its stock.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

CORPORATE DISCLOSURE STATEMENT ii

TABLE OF CONTENTS..... iii

TABLE OF CITED AUTHORITIES iv

STATEMENT OF THE CASE 1

REASONS TO DENY THE PETITION 7

I. Lexmark Overstates the Scope and Significance of Any Circuit Split..... 7

II. This Case Is a Poor Vehicle Because the Decision Is Interlocutory, and Any Action by This Court Is Unlikely to Change the Outcome 12

III. Lexmark Provides No Reasoned Justification for Adopting Any Particular Prudential Standing Test..... 14

CONCLUSION 16

TABLE OF CITED AUTHORITIES

Page

CASES

Am. Constr. Co. v. Jacksonville, T. & K.W. Ry.,
148 U.S. 372 (1893) 12

Associated General Contractors of California, Inc. v. California State Council of Carpenters,
459 U.S. 519 (1983) ..... *passim*

Bhd. of Locomotive Firemen & Enginemen v. Bangor & Aroostook R.R.,
389 U.S. 327 (1967) 12

Camel Hair & Cashmere Inst. of Am., Inc. v. Associated Dry Goods Corp.,
799 F.2d 6 (1st Cir. 1986) 5, 8, 13

Conte Bros. Auto., Inc. v. Quaker State–Slick 50, Inc.,
165 F.3d 221 (3d Cir. 1998) ..... *passim*

Dovenmuehle v. Gilldorn Mortg. Midwest Corp.,
871 F.2d 697 (7th Cir. 1989) 8

Elk Grove Unified Sch. Dist. v. Newdow,
542 U.S. 1 (2004) 1

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624 F.3d 106 (2d Cir. 2010) 8, 11

Cited Authorities

Page

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670 F.2d 642 (6th Cir.), *cert. denied*,
459 U.S. 916 (1982) 5, 6, 16

Gilbert/Robinson, Inc. v. Carrie Beverage–Mo., Inc.,
989 F.2d 985 (8th Cir.), *cert. denied*,
510 U.S. 928 (1993) 6

Johnson & Johnson v. Carter-Wallace, Inc.,
631 F.2d 186 (2d Cir. 1980) 5, 6

L.S. Heath & Son, Inc. v. AT&T Information Sys., Inc.,
9 F.3d 561 (7th Cir. 1993) 8

Lexmark Int'l, Inc. v. Static Control Components, Inc.,
387 F.3d 522 (6th Cir. 2004) 2, 3

Logan v. Burgers Ozark Country Cured Hams Inc.,
263 F.3d 447 (5th Cir. 2001) 8

Made in the USA Found. v. Phillips Foods, Inc.,
365 F.3d 278 (4th Cir. 2004) 5-6, 11

New West Corp. v. NYM Co. of Cal., Inc.,
595 F.2d 1194 (9th Cir. 1979) 9

Ortho Pharm. Corp. v. Cosprophar, Inc.,
32 F.3d 690 (2d Cir. 1994) 11

Cited Authorities

Page

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489 F.3d 1156 (11th Cir. 2007), *cert. denied*,
552 U.S. 1275 (2008) ..... *passim*

PPX Enters., Inc. v. Audiofidelity, Inc.,
746 F.2d 120 (2d Cir. 1984) 13

Procter & Gamble Co. v. Amway Corp.,
242 F.3d 539 (5th Cir.), *cert. denied*,
534 U.S. 945 (2001) 6, 14

Serbin v. Ziebart Int'l Corp.,
11 F.3d 1163 (3d Cir. 1993) 10

Stanfield v. Osborne Indus., Inc.,
52 F.3d 867 (10th Cir. 1995) 8

Static Control Components, Inc. v. Lexmark Int'l, Inc.,
697 F.3d 387 (6th Cir. 2012) 2

Thorn v. Reliance Van Co.,
736 F.2d 929 (3d Cir. 1984) 10

Waits v. Frito-Lay, Inc.,
978 F.2d 1093 (9th Cir. 1992) 8

Cited Authorities

Page

STATUTES

15 U.S.C. § 1125(a)(1)(B) ..... *passim*

15 U.S.C. § 1127 15

N.C. Gen. Stat. §§ 75-1, *et seq.* 4

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STATEMENT OF THE CASE

1. Section 43(a) of the Lanham Act states in relevant part:

> Any person who . . . uses in commerce any . . . false or misleading representation of fact, which . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a)(1)(B).

The text of Section 43(a), on its face, allows "any person" injured to recover damages for statutory violations. Federal courts of appeals, however, have limited the class of plaintiffs who may seek redress—beyond the requirements of Article III standing—through the doctrine of "prudential standing." The Court's "prudential standing" doctrine "encompasses . . . the requirement that a plaintiff's complaint fall within the zone of interests protected by the law invoked." *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1, 12 (2004) (citations and internal quotation marks omitted).

2. Lexmark makes and sells laser printers. (Docket Entry ("DE") 226, Second Am. Answer & Countercl. ¶¶ 22-24, at 14.) Lexmark also makes and sells consumable supplies for these laser printers—most importantly, replacement toner cartridges. (*Id.*) Owners of Lexmark

printers must purchase Lexmark-compatible toner cartridges to continue using the product throughout the life of the printer. (*Id.*)

Entities known as "remanufacturers" recycle used Lexmark toner cartridges (most of which would otherwise end up in landfills) by replacing any worn internal parts and by replenishing toner. (DE226, Second Am. Answer & Countercl. ¶¶ 27-29, at 15.) Remanufacturers sell these refurbished cartridges to owners of Lexmark printers, competing with Lexmark in the toner-cartridge market. (*Id.*)

Static Control is the world's leading maker and seller of replacement parts for printer cartridges, including parts specifically designed for Lexmark-compatible toner cartridges. (DE226, Second Am. Answer & Countercl. ¶¶ 30-31, at 16.) Static Control makes and sells these parts (including sophisticated microchips and specialized mechanical parts) to remanufacturers, enabling them to compete with Lexmark in the market for toner cartridges. (*Id.*)

Lexmark initiated this litigation by suing Static Control in 2002.[1] Static Control counterclaimed, alleging that Lexmark's conduct violated state and federal antitrust statutes and, separately, that Lexmark engaged in false

1. None of Lexmark's affirmative claims is at issue here. The ten-year litigation between the parties has produced two reported opinions by the Sixth Circuit that provide a history of the parties' claims. *See Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387 (6th Cir. 2012) (Pet. App. 1-64); *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 528-32 (6th Cir. 2004).

advertising about both Lexmark's and Static Control's products. First, Static Control alleged that Lexmark falsely advertised that it sold its toner cartridges subject to a single-use patent license (which Lexmark referred to as its "Prebate" program[2]) and that remanufacturing Lexmark cartridges therefore infringed Lexmark patents. (DE226, Second Am. Answer & Countercl. ¶¶ 2, 39-41, at 10, 18-19.) Second, Lexmark falsely advertised that the use of Static Control's products would cause remanufacturers to infringe Lexmark's patent-based restrictions on Prebate cartridges. (DE226, Second Am. Answer & Countercl. ¶ 35, at 17; *id.* ¶¶ 2, 84-90, at 10, 28-29.) These advertisements were false because Lexmark lacked patent rights to impose on the cartridges' post-sale use. *See* Pet. App. 9-10, 46-64. Lexmark's false advertising

---

2. The court of appeals described Lexmark's "Prebate" program as follows:

> In the 1990s, Lexmark started a "Prebate" program with certain large customers whereby Lexmark would sell new toner cartridges at an upfront discount of around 20% if the end user agreed to (1) a single-use license and (2) a restriction that the cartridge be returned to Lexmark for remanufacturing or recycling and not to a third-party remanufacturer. These terms were printed on several notices on the outside of the toner-cartridge box, which instructed the user that opening the box would indicate acceptance of the terms.

Pet. App. 5 (citation omitted). Lexmark placed a microchip in each cartridge that prevented Prebate cartridges from being remanufactured or reused. *Id.* at 6. After Static Control developed and marketed replacement microchips for the Lexmark cartridges, Lexmark initiated this lawsuit. *Id.* at 7; *see Lexmark Int'l v. Static Control*, 387 F.3d at 530-31.

harmed Static Control's business by (among other things) "caus[ing] consumers and others in the trade to believe that [Static Control's] products are illegal and unlawful," "diverting sales from [Static Control] to Lexmark," and causing substantial injury to Static Control's business reputation. (DE226, Second Am. Answer & Countercl. ¶¶ 2, 86, at 10, 29.)

Static Control alleged that these false representations violated Section 43(a) of the Lanham Act and a state law analogue, the North Carolina Unfair and Deceptive Trade Practices Act, N.C. Gen. Stat. §§ 75-1, *et seq.* The trial of Lexmark's claims established that Lexmark's representations were false. *See* Pet. App. 44-64.

3. Lexmark moved to dismiss Static Control's state and federal antitrust and false advertising counterclaims for lack of prudential standing. In deciding Lexmark's motion, the district court first concluded that Static Control lacked antitrust standing (under both state and federal law) after applying this Court's five-factor test articulated in *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 537-45 (1983) ("*AGC*"). Pet. App. 73-82 (federal law); Pet. App. 82, 86 (state law).

The district court also found that Static Control lacked standing under the Lanham Act and the North Carolina Unfair and Deceptive Trade Practices Act, "[f]or the same reasons that [Static Control] lacks standing to pursue its antitrust claims." Pet. App. 83 (citing its *AGC* analysis); Pet. App. 86. The district court conducted no analysis of the distinct factual allegations supporting Static Control's Lanham Act counterclaim, *e.g.*, Pet. App. 38 n.10; Pet. App.

82-83,[3] which included allegations that Lexmark's false advertising directly targeted Static Control's products. (DE226, Am. Answer & Countercl. ¶ 35, at 17; *id.* ¶¶ 2, 84-90, at 10, 28-29.)

4. On appeal, the Sixth Circuit reversed the district court's dismissal of Static Control's Lanham Act, North Carolina Unfair and Deceptive Trade Practices Act, and state law antitrust claims.[4] Pet. App. 4, 34-42. The court of appeals reached three significant conclusions regarding Static Control's Lanham Act claim:

a. The court of appeals reiterated that Lanham Act standing in the Sixth Circuit is governed by the "reasonable-interest" test set forth in *Frisch's Restaurants, Inc. v. Elby's Big Boy*, 670 F.2d 642, 649-50 (6th Cir.), *cert. denied*, 459 U.S. 916 (1982). Pet. App. 37.[5] This is the standard that the courts of appeals in the First, Second, and arguably Fourth Circuits also apply.[6]

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3. Pet. App. 82-83 ("The claim is presumably based on the 'Prebate agreement' that Lexmark prints on each of its 'Prebate cartridges'. . . . The factual predicate for SCC's Lanham Act claim is the same as for SCC's antitrust claims.").

4. The court of appeals affirmed the district court's dismissal of Static Control's federal antitrust claims. *E.g.*, Pet. App. 42.

5. Inasmuch as the Sixth Circuit has applied the reasonable-interest test for more than 30 years, Lexmark's claims that the Sixth Circuit in this case "adopted" the reasonable-interest test, or was "following" a 2010 opinion of the Second Circuit, Pet. 9, are incorrect.

6. *Camel Hair & Cashmere Inst. of Am., Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6, 11 (1st Cir. 1986); *Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186, 190 (2d Cir. 1980); *Made in*

Under this standard, a claimant has Lanham Act standing if it pleads facts showing "'a reasonable basis for the belief that [it] is likely to be damaged as a result of the false advertising.'" *Frisch's*, 670 F.2d at 649-50 (quoting *Johnson & Johnson*, 631 F.2d at 190). Although the Sixth Circuit noted that the Third, Fifth, Eighth, and Eleventh Circuits either reference antitrust principles or use the *AGC* five-factor test to determine Lanham Act standing,[7] the court observed that the Third Circuit (the first to apply *AGC* in this way) characterized *AGC* as a framework for applying the reasonable-interest test.[8]

b. The court of appeals held that Static Control pleaded sufficient facts to establish standing under the reasonable-interest test: "Static Control alleged a cognizable interest in its business reputation and sales

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the USA Found. v. Phillips Foods, Inc., 365 F.3d 278, 281 (4th Cir. 2004) ("Our [approach to Lanham Act standing] is consistent with the basic approach of other circuits that requires the Lanham Act plaintiff to be engaged in commercial activity.").

7. Pet. App. 37 (citing *Conte Bros. Auto., Inc. v. Quaker State–Slick 50, Inc.*, 165 F.3d 221, 233-34 (3d Cir. 1998) (Alito, J., authoring); *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 562-63 (5th Cir.), *cert. denied*, 534 U.S. 945 (2001); *Gilbert/Robinson, Inc. v. Carrie Beverage–Mo., Inc.*, 989 F.2d 985, 990-91 (8th Cir.), *cert. denied*, 510 U.S. 928 (1993); *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156, 1162-64 (11th Cir. 2007), *cert. denied*, 552 U.S. 1275 (2008)). Contrary to Lexmark's assertions, Pet. 12, the Eighth Circuit neither applied the *AGC* test nor followed *Conte Bros.*, but analogized the requirement of causation for Lanham Act liability to the concept of antitrust standing. *Gilbert/Robinson*, 989 F.2d at 991.

8. Pet. App. 37 ("The Third Circuit nominally uses a 'reasonable interest' approach, but applies it by looking to the five *AGC* factors.") (citing *Conte Bros.*, 165 F.3d at 233-34).

to remanufacturers and sufficiently alleged that these interests were harmed by Lexmark's statements to the remanufacturers that Static Control was engaging in illegal conduct. This is sufficient to state a claim under the Lanham Act." Pet. App. 38.

c. The court of appeals also explained that "Static Control's claim would not necessarily fail" under the *AGC* approach, and that the district court had applied the *AGC* test to the wrong facts: "the district court at a minimum should have applied the *AGC* factors to Static Control's allegations of false advertising directly targeting Static Control (not just the Prebate program) and its injuries in conducting the five-factor analysis." Pet. App. 38 n.10.

5. The court of appeals thereafter denied rehearing en banc.

REASONS TO DENY THE PETITION

The Court should deny the petition for three reasons. First, any alleged circuit split is neither significant nor consequential. Second, the case is a poor vehicle because the decision is interlocutory, and review by the Court will not be outcome determinative. Finally, the decision below is correct and thoroughly consistent with the policies underlying the Lanham Act—no justification exists for certiorari.

I. Lexmark Overstates the Scope and Significance of Any Circuit Split.

Lexmark invents a "widening," Pet. 14, three-way split among the courts of appeals for determining Lanham Act standing, *e.g.*, Pet. 8-9, and contends that this

Court's intervention is necessary to "resolve wide-spread confusion" about the proper test. Pet. 7. Not so.

A. There is no three-way split. The conflict in the circuits at bottom pits a moribund categorical approach (requiring direct competition for Lanham Act standing) against the trend toward a multi-factor analysis of the claimant's reasonable commercial interests. This limited conflict is receding in importance and is not worthy of the Court's attention.

The clear majority of the courts of appeals holds that direct competition between the claimant and the defendant is not necessary to establish Lanham Act standing.[9] The categorical test requiring such direct competition represents the disfavored minority position of the courts of appeals, with only three circuits adhering to this view.[10]

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9. *See, e.g., Camel Hair*, 799 F.2d at 11 ("[T]here appears to be a general consensus that the plaintiff does not have to be a competitor in order to have standing to sue."); *Famous Horse, Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d Cir. 2010) ("We have not *required* that litigants be in competition . . . ."); *Conte Bros.*, 165 F.3d at 234 ("[T]here may be circumstances in which a non-competitor may have standing to sue. . . ."); *Logan v. Burgers Ozark Country Cured Hams Inc.*, 263 F.3d 447, 460-61 (5th Cir. 2001) (rejecting defendant's argument that claimant, as non-competitor, lacked standing); *Phoenix of Broward*, 489 F.3d at 1164-66 (refusing to adopt "categorical" test).

10. *See, e.g., L.S. Heath & Son, Inc. v. AT&T Info. Sys., Inc.*, 9 F.3d 561, 575 (7th Cir. 1993); *Waits v. Frito-Lay, Inc.*, 978 F.2d 1093, 1109 (9th Cir. 1992); *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 873 (10th Cir. 1995). The Seventh and Ninth Circuits used in prior cases the reasonable-interest test for Lanham Act standing. *See, e.g., Dovenmuehle v. Gilldorn Mortg. Midwest Corp.*, 871 F.2d 697, 700 (7th Cir. 1989) (affirming summary judgment

The most recent case adopting the categorical test within a judicial circuit (the Tenth Circuit) was decided eighteen years ago. No other court of appeals has adopted it since, while all other circuits have reaffirmed the reasonable-interest test or adopted the Third Circuit's elaboration of that test by analogy to *AGC*.

All recent cases from other circuits reject the categorical test. The Third Circuit, in a case written by then-Judge Alito, concluded that the plain language of the Lanham Act could not support the Ninth Circuit's categorical test. *Conte Bros.*, 165 F.3d at 232. This is consistent with the observations of the leading treatise on the Lanham Act, which calls the categorical test "an aberration in the history of court interpretation of § 43(a)."[11]

Given the criticism leveled at the categorical test for Lanham Act standing, and the fact that the test has gained no new adherents in nearly two decades, the asserted split is of questionable importance and unquestionably is receding. The dearth of appellate cases decided under the "categorical" test suggests this issue rarely proves dispositive. And none of the cases adopting the "categorical" test involved circumstances where the false advertising specifically targeted a claimant's commercial goods. To the contrary, in each of the cases cited by

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that plaintiffs "failed to establish 'a reasonable interest to be protected'"); *New West Corp. v. NYM Co. of Cal., Inc.*, 595 F.2d 1194, 1198 (9th Cir. 1979) ("[t]he dispositive question is whether the party has a reasonable interest to be protected against false advertising").

11. 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 27:32, at 27-74 – 27-75 (4th ed. 2013).

Lexmark either the alleged false advertising did not pertain to goods produced by the claimant, or the claimant produced no commercial goods at all. For these reasons, this Court should deny the petition and allow the courts of appeals for the Seventh, Ninth, and Tenth Circuits the opportunity to reconsider their Lanham Act standing jurisprudence and join the majority of their sister circuits in adopting some form of the reasonable-interest test.

B. No reason exists for the Court to articulate a non-categorical approach to Lanham Act standing. The reasonable interest test and the *AGC* factors are consistent with one another, and no meaningful confusion in the court of appeals exists. As the Third Circuit noted, the *AGC* factors simply provide "an appropriate method for adding content to [the] 'reasonable interest' test" for Lanham Act standing. *Conte Bros.*, 165 F.3d at 233.[12] Even Lexmark argued below that the reasonable-interest test and *AGC* were conceptually the same. Pet. App. 37. Although Lexmark tries to amplify the claimed differences between the circuits, the courts of appeals generally recognize only two Lanham Act standing tests—categorical and non-categorical.[13]

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12. The *Conte Bros.* panel applied and elaborated upon the Third Circuit's earlier jurisprudence, which concluded that Lanham Act Section 43(a) standing turns on whether the claimant has a reasonable interest to be protected against false advertising, and that a non-competitor properly can assert standing. *Id.*, 165 F.3d at 230-33 (citing *Serbin v. Ziebart Int'l Corp.*, 11 F.3d 1163, 1175-77 (3d Cir. 1993) and *Thorn v. Reliance Van Co.*, 736 F.2d 929, 933 (3d Cir. 1984)).

13. *See, e.g.*, *Phoenix of Broward*, 489 F.3d at 1166 n.5 (characterizing the difference between the categorical test and multi-factor approach as "tension" rather than a circuit split). The

What Lexmark calls "confusion" among the circuits largely reflects that determinations of standing are necessarily fact-bound, and that "'it is simply not possible to fashion an across-the-board and easily applied standing rule which can serve as a tool of decision for every case.'" *AGC*, 459 U.S. at 536 n.33 (quoting Randolph S. Sherman, *Antitrust Standing: From Loeb to Malamud*, 51 N.Y.U. L. Rev. 374, 407 (1976)). This Court should not intervene merely because "there might be some marginal differences in the circuits about what qualifies as commercial or competitive interest for standing purposes." *Phillips Foods*, 365 F.3d at 281. Such nuances exist in the circuits on every test involving multiple, non-exclusive factors.[14] Whatever differences might exist among the reasonable-interest approaches to Lanham Act standing, Static Control would have standing regardless of the test applied.

Sixth Circuit, like the Second Circuit, suggested the formal *AGC* construction of the reasonable-interest test was unnecessary. Pet. App. 37 (citing *Famous Horse*, 624 F.3d at 115 n.3).

14. Lexmark asserts that the Sixth Circuit's decision applied the reasonable-interest test "in a way that is materially different and more expansive than the Second Circuit" because the latter applies a "heightened standard" for non-competitors. Pet. 10 (citing *Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994). The Second Circuit cases, however, do not apply a "heightened standard" to determine standing at the pleading stage. The court in *Cosprophar* dismissed the case for lack of standing following plaintiff's case-in-chief, after the claimant failed to produce sufficient proof of injury or causation. 32 F.3d at 694. *Cosprophar*, therefore, stands at most for the proposition that Static Control would lack standing if it were to fail to present sufficient evidence of its "reasonable interest" to be free from Lexmark's false advertising. 32 F.3d at 692. *See also Famous Horse*, 624 F.3d at 113.

II. This Case Is a Poor Vehicle Because the Decision Is Interlocutory, and Any Action by This Court Is Unlikely to Change the Outcome.

A. The Sixth Circuit's decision is not final because it remanded for further proceedings, including a trial on the merits. The question presented is therefore not ripe for review because intervening events could moot the necessity for this Court's review. *Cf. Bhd. of Locomotive Firemen & Enginemen v. Bangor & Aroostook R.R.*, 389 U.S. 327, 328 (1967) (per curiam) (denying certiorari "because the Court of Appeals remanded the case," making it "not yet ripe for review by this Court"). As this Court recognized long ago, "many orders made in the progress of a suit become quite unimportant by reason of the final result, or of intervening matters." *Am. Constr. Co. v. Jacksonville, T. & K.W. Ry.*, 148 U.S. 372, 384 (1893).

A judgment adverse to Static Control's Lanham Act claim—either at summary judgment or by jury verdict—could moot the question presented. And a judgment favorable to Static Control's state-law claims for the same damages could provide an adequate and independent state ground for a verdict, precluding review of the question presented. The Court, moreover, would benefit from having a developed record and jury findings on which to judge the question presented. The Court should allow those claims to go forward. If, at the end of those proceedings, the case presents a suitable question for review, the Court can decide whether the case merits certiorari based on a full factual record.

B. Lexmark incorrectly insists that, if this Court were to adopt *AGC* as the test for Lanham Act standing, "then the District Court's dismissal of . . . Static Control's Lanham Act claims using that analysis should be affirmed." Pet. 11-12. The Sixth Circuit had a different opinion. Even if this Court were to grant review and thereafter conclude that *AGC* is the proper Lanham Act standing test, the court of appeals in this case has already stated that Static Control's counterclaim allegations may establish Lanham Act standing under *AGC*. Pet. App. 38 n.10.

Lexmark's speculative contention that the district court opinion would be "affirmed" under *AGC* ignores the court of appeals' criticism of the district court's reasoning on this precise point. Pet. 11-12. As the Sixth Circuit found, the district court erred even under *AGC* by failing to assess Static Control's specific allegations supporting its Lanham Act claim, which were different from Static Control's antitrust allegations. Pet. App. 38 n.10.

In analogous circumstances, claimants engaged in commercial activity have established Lanham Act standing even when they have not been the defendant's direct competitors.[15] In those cases applying *AGC* and concluding that the claimant *lacked* standing, none involved allegations (as Static Control's do) that the

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15. *See, e.g., Camel Hair*, 799 F.2d at 6-8 (trade group of cashmere garment producers had standing to remedy false advertising by coat manufacturer concerning cashmere content of its products); *PPX Enters., Inc. v. Audiofidelity, Inc.*, 746 F.2d 120 (2d Cir. 1984) (holding that owner of royalty streams from music recording had standing to sue distributor of falsely labeled music recordings).

defendant's false advertising directly targeted the claimant's products.[16]

Further, regardless of how this Court resolves Lexmark's petition, Static Control's false advertising claim will proceed under the North Carolina Unfair and Deceptive Trade Practices Act—a state law analogue to the Lanham Act. Pet. App. 38-42. As a consequence, even if this Court were to reverse the Sixth Circuit and hold that Static Control lacks prudential standing under the Lanham Act, Lexmark will still face potential false advertising liability for the same conduct. A merits decision by this Court, therefore, will make little, if any, practical difference to the parties. The Court should allow Static Control's false advertising claims—first alleged more than nine years ago—to go forward without further delay.

III. Lexmark Provides No Reasoned Justification for Adopting Any Particular Prudential Standing Test.

Lexmark provides no argument or reasoned justification for reversing the Sixth Circuit's application

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16. *See, e.g.*, *Phoenix of Broward*, 489 F.3d at 1169 (affirming order dismissing Lanham Act claims for lack of standing) ("[T]he causal chain linking [defendant] McDonald's alleged misrepresentations about one aspect of its promotional games to a decrease in [class claimants-franchisees] *Burger King's* sales is tenuous, to say the least"); *Procter & Gamble*, 242 F.3d at 563 (finding no standing where "the injury is alleged to arise from a competitor's fraudulently inducing a workforce—not necessarily its competitor's—to work for it. . . ."); *Conte Bros.*, 165 F.3d at 234-35 (concluding retailers lacked Lanham Act standing concerning a manufacturer's misstatements about its own motor oil additive products).

of the reasonable interest test apart from its interest in changing the result. In any event, the Sixth Circuit's decision was correct.

Section 43(a) of the Lanham Act provides a right of action to any person who is or is likely to be damaged by false statements that misrepresent the nature, characteristics, or qualities of that person's goods, services, or commercial activities. 15 U.S.C. § 1125(a)(1)(B). Congress enacted the Lanham Act to give a cause of action for unfair competition to commercial interests that, like Static Control, are the target of false advertising. *See* 15 U.S.C. § 1127 ("The intent of this chapter is . . . to protect persons engaged in such commerce against unfair competition").

Static Control's Lanham Act counterclaim promotes the Lanham Act's statutory standing elements and objectives. As alleged, Lexmark specifically targeted Static Control with false commercial statements attacking the lawfulness of Static Control's products and its business, and its reputation for honesty and integrity. Pet. App. 34-35. Lexmark's intentional effort to harm Static Control's commercial sales and goodwill is precisely the type of unfair competition that Congress enacted Section 43(a) to remedy. *See Conte Bros.*, 165 F.3d at 236 (purpose of Section 43(a) is "to ferret out unfair competitive methods and protect businesses from the unjust erosion of their good will and reputation").

Lexmark, moreover, does not contend that Static Control's standing under the reasonable-interest test conflicts with the Lanham Act's text or purposes. Indeed, Lexmark fails to cite any authority concluding that the reasonable-interest test itself conflicts with the Lanham

Act's purposes. Lexmark thus provides no justification for a grant of certiorari in this case, other than its self-interest in reversing the conclusion of the court of appeals. Just as this Court previously denied certiorari in prior cases under alternative articulations of the reasonable-interest test,[17] it should again deny certiorari here.

CONCLUSION

This Court should deny the petition for a writ of certiorari.

Respectfully submitted,

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17. *See, e.g.*, *Phoenix of Broward*, *supra* at 6 note 7 (applying *AGC* factors); *Frisch's Restaurants*, *supra* at 5 (using multi-factor reasonable-interest analysis).

REPLY BRIEF

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In the Supreme Court of the United States

LEXMARK INTERNATIONAL, INC.,
Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

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TABLE OF CONTENTS

Page(s)

Table of Authorities ii

Reasons for Granting the Petition 1

I. Intervention by this Court is necessary to resolve the conflict among the circuits as to the test for standing for Lanham Act false advertising claims 1

II. This case is an appropriate vehicle for the Court to resolve the conflict among the circuits 4

III. The Sixth Circuit's "reasonable interest test" is inconsistent with the well-established prudential standing doctrine 8

Conclusion 12

TABLE OF AUTHORITIES

Page(s)

CASES

Allen v. Wright,
468 U.S. 737 (1984) 6

Am. Elec. Power Co. v. Connecticut,
131 S. Ct. 2527 (2011) 7

Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters,
459 U.S. 519 (1983) 1, 2, 3

Bender v. Williamsport Area Sch. Dist.,
475 U.S. 534 (1986) 9

Bennett v. Spear,
520 U.S. 154 (1997) 8

Bray v. Alexandria Women's Health Clinic,
506 U.S. 263 (1993) 7

City of Columbia v. Omni Outdoor Advertising,
499 U.S. 365 (1991) 7

Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc.,
165 F.3d 221 (3d Cir. 1998) . . . . . *passim*

DaimlerChrysler Corp. v. Cuno,
547 U.S. 332 (2006) 6

Dovenmuehle v. Gilldorn Mortg. Midwest Corp.,
871 F.2d 697 (7th Cir. 1989) 6

Famous Horse, Inc. v. 5th Ave. Photo Inc.,
624 F.3d 106 (2d Cir. 2010) 2, 3

Frisch's Rests., Inc. v. Elby's Big Boy of Steubenville, Inc.,
670 F.2d 642 (6th Cir. 1982) 2, 8, 9, 11

Johnson & Johnson v. Carter-Wallace, Inc.,
631 F.2d 186 (2d Cir. 1980) 11

Lujan v. Defenders of Wildlife,
504 U.S. 555 (1992) 6

Made in the USA Found. v. Phillips Foods, Inc.,
365 F.3d 278 (4th Cir. 2004) 6

Static Control Components, Inc. v. Lexmark Int'l, Inc.,
697 F.3d 387 (6th Cir. 2012) 2, 6, 9

Warth v. Seldin,
422 U.S. 490 (1975) 5

STATUTES

15 U.S.C. § 1125(a)(1) 9

OTHER AUTHORITIES

Kevin M. Lemley, *Resolving the Circuit Split on Standing in False Advertising Claims and Incorporation of Prudential Standing in State Deceptive Trade Practices Law: The Quest for Optimal Levels of Accurate Information in the Marketplace*, 29 U. Ark. Little Rock L. Rev. 283 (2007) 4

Peter S. Massaro, III, *Filtering Through a Mess: A Proposal to Reduce the Confusion Surrounding the Requirements for Standing in False Advertising Claims Brought Under Section 43(a) of the Lanham Act*, 65 Wash & Lee L. Rev. 1673 (2008) 3

S. Rep. No. 100-515, 100th Cong., 2d Sess., reprinted in 1988 U.S.C.C.A.N. 5577 (May 12, 1988) 10

Diane Taing, *Competition for Standing: Defining the Commercial Plaintiff under Section 43(a) of the Lanham Act*, 16 Geo. Mason L. Rev. 493 (2009) 3

Rebecca Tushnet, 43(B)log: False Advertising and More, http://tushnet.blogspot.com/2012/09/lexmark-v-static-control-false.html (September 04, 2012, 9:49 AM) 4

REASONS FOR GRANTING THE PETITION

I. Intervention by this Court is necessary to resolve the conflict among the circuits as to the test for standing for Lanham Act false advertising claims.

While unable to deny the widespread circuit split as to the requirements for standing to assert Lanham Act false advertising claims, Static Control attempts to downplay the split by arguing that the "reasonable interest test" is essentially the same as the *AGC* multi-factored analysis. Of course, even if this were the case, there would still be a circuit split with at least three circuits applying the categorical test requiring direct competition—and there is absolutely no indication that the Seventh, Ninth, and Tenth Circuits are inclined to "reconsider their Lanham Act standing jurisprudence" as suggested by Static Control. Brief in Opposition, p. 10.

Contrary to Static Control's present contention, however, multiple courts, commentators, and even Static Control itself in its briefs before the Sixth Circuit, recognize that there is a significant difference between the reasonable interest test as applied by the Sixth Circuit in this case and the *AGC* analysis, which was applied by the district court below and is followed by the majority of circuits that have addressed the issue.

In this case, the Sixth Circuit made it unmistakably clear that the reasonable interest test is "conceptually different" from the *AGC* factors employed by the Third Circuit in *Conte Bros. Auto., Inc. v. Quaker State-Slick*

50, Inc., 165 F.3d 221, 227 (3d Cir. 1998) (Alito, J., authoring). As the panel below explained:

> The Third Circuit nominally uses a "reasonable interest" approach, but applies it by looking to the five *AGC* factors. *Conte Bros.*, 165 F.3d at 233-34. The Third Circuit has also rejected any distinction in standing between the two types of Lanham Act claims. *Id.* at 232. The Second Circuit's more recent cases reject the Third Circuit's conflation of the reasonable-interest test with the *AGC* factors as "unnecessarily complicat[ing] the inquiry," [*Famous Horse, Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 115 n.3 (2d Cir. 2010)], setting its approach apart. Therefore, Lexmark's statement that the reasonable interest test and the AGC test are not "conceptually different," Second Appellee Br. at 60, is not correct.

Static Control Components, Inc. v. Lexmark Int'l, Inc., 697 F.3d 387, 410 (6th Cir. 2012), Pet. App. 37.

Thus, whatever the status of the law in the Sixth Circuit before its opinion in this case, it is now clear that "[i]n this Circuit [i.e., the Sixth Circuit], the test for Lanham Act standing is not the same as the *AGC* test for antitrust standing," as Static Control argued in its brief below. (First Appellant Br. at 53, quoted at Pet. App. 35).[1]

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[1] Static Control further elaborated on the distinction between the reasonable interest test and the *AGC* factors in its Third Brief in the appeal below, explaining that: "*Frisch's* is this Court's [i.e., the

As reflected in the Sixth Circuit's opinion, the Second Circuit also expressly recognized that there are three distinct tests for Lanham Act standing currently used by the various circuits: the "strong categorical test," the *AGC* factors as applied in *Conte Brothers*, and the "more flexible" reasonable interest approach. *Famous Horse*, 624 F.3d at 112, 115 n.3.

The fact of the three-way circuit split on this issue and the enduring confusion among the federal courts has also been noted by numerous commentators. *See, e.g.*, Diane Taing, *Competition for Standing: Defining the Commercial Plaintiff under Section 43(a) of the Lanham Act*, 16 Geo. Mason L. Rev. 493, 494 (2009) ("A circuit split currently exists on the issue of prudential standing. The courts have adopted three different approaches for determining whether or not a commercial party may bring an action under Section 43(a): (1) the categorical approach; (2) the reasonable interest approach; and (3) the balancing test approach."); Peter S. Massaro, III, *Filtering Through a Mess: A Proposal to Reduce the Confusion Surrounding the Requirements for Standing in False Advertising Claims Brought Under Section 43(a) of the Lanham Act*, 65 Wash & Lee L. Rev. 1673, 1691 (2008) ("The current standards for Section 43(a) standing can be grouped into three categories. The Ninth and Tenth Circuits take the categorical approach. The First and Second Circuits apply a reasonable interests test. Finally, the Third, Fifth, and Eleventh Circuits use a

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Sixth Circuit's] last word on Lanham Act standing. Its simplicity stands in sharp contrast to *AGC*'s five-factor analysis." Third Appellant Br. at 35.

five-prong test that is commonly referred to as the *Conte Bros.* test, a reference to the case in which the Third Circuit developed the test."); Kevin M. Lemley, *Resolving the Circuit Split on Standing in False Advertising Claims and Incorporation of Prudential Standing in State Deceptive Trade Practices Law: The Quest for Optimal Levels of Accurate Information in the Marketplace*, 29 U. Ark. Little Rock L. Rev. 283, 291 (2007) ("It is time to bring order to the chaos and establish a single test for standing in section 43(a) cases.").

And at least one leading scholar of false advertising law has recognized that the Sixth Circuit's ruling in this case only adds to the confusion among the circuits. Rebecca Tushnet, 43(B)log: False Advertising and More, http://tushnet.blogspot.com/2012/09/lexmark-v-static-control-false.html (September 04, 2012, 9:49 AM) ("Okay, I thought Lanham Act standing couldn't get further bollixed. My mistake!").

Thus, contrary to Static Control's contention there is without question a significant and consequential split among the circuits that will only be resolved by a ruling from this Court.

II. This case is an appropriate vehicle for the Court to resolve the conflict among the circuits.

The question presented for review by this Petition is purely legal because the question of standing was properly resolved by the district court upon a motion to dismiss based solely upon an analysis of Static

Control's Lanham Act Counterclaim.[2] Therefore, no development of the record could possibly be relevant or aid this Court's consideration of the question presented.

Static Control's suggestion that this case is a "poor vehicle" because "intervening events" such as a summary judgment or jury verdict adverse to its Lanham Act claim could "moot" the standing issue and that the decision is "interlocutory" ignores the fact that by its nature standing is a threshold issue that can and should be decided at the beginning of a case on a motion to dismiss. Brief in Opposition, p. 12. "The rules of standing, whether as aspects of the Art. III case-or-controversy requirement or as reflections of prudential considerations defining and limiting the role of the courts, are threshold determinants of the propriety of judicial intervention. It is the responsibility of the complainant clearly to allege facts demonstrating that he is a proper party to invoke judicial resolution of the dispute and the exercise of the court's remedial powers." *Warth v. Seldin*, 422 U.S. 490, 517-518 (1975).

It is always true that the threshold issue of standing can become moot if it is not resolved before the underlying claim is disposed of on some other ground. However, this does not prevent courts from routinely addressing the issue in Lanham Act cases early in litigation when raised by a motion to dismiss.

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[2] Because the Lanham Act claim was dismissed prior to trial, contrary to Static Control's assertion, there was no finding at trial with regard to Static Control's Lanham Act claim. *See* Brief in Opposition, p. 4.

See e.g., Conte Bros., 165 F.3d 221 (affirming district court's dismissal of Lanham Act claim for lack of prudential standing); *Dovenmuehle v. Gilldorn Mortg. Midwest Corp.*, 871 F.2d 697, 698 (7th Cir. 1989) (same); *Made in the USA Found. v. Phillips Foods, Inc.*, 365 F.3d 278 (4th Cir. 2004) (same). Similarly, it does not insulate questions of judicial standing from review by this Court. *See, e.g., DaimlerChrysler Corp. v. Cuno*, 547 U.S. 332 (2006) (where plaintiffs lacked standing the lower courts erred by considering their claims on the merits); *Lujan v. Defenders of Wildlife*, 504 U.S. 555 (1992) (district court correctly granted motion to dismiss for lack of standing); *Allen v. Wright*, 468 U.S. 737 (1984) (same).

Similarly, that Static Control ***may*** be able to pursue a false advertising claim under state law does not render this case an inappropriate vehicle for the question presented by Lexmark's Petition.[3] The Court can, of course, resolve a federal issue presented by a petition for writ of certiorari without addressing state law issues that may be present in the same case or

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[3] The Sixth Circuit reversed the district court's dismissal of Static Control's North Carolina claims holding that the lower court had applied the wrong test for standing under North Carolina law. *Static Control Components, Inc.*, 697 F.3d at 411-413, Pet. App. 41-42. However, the Sixth Circuit did not reinstate Static Control's state law claims as it did with the Lanham Act claim but, instead, merely remanded for further proceedings. *Id.* at 413. Thus, it remains for the district court to determine whether Static Control has standing to assert its North Carolina claims based upon a distinct state law analysis that is unrelated to the question presented by Lexmark's Petition. In addition, these state law claims may not survive based upon other deficiencies relating to their merits or otherwise.

otherwise resolving every claim in the case. *See, e.g.*, *Am. Elec. Power Co. v. Connecticut*, 131 S. Ct. 2527, 2540 (2011) (noting the presence of a nuisance law claim in the context of the Court's holding that the Clean Air Act displaces federal common law, and leaving the state law question "open for consideration on remand"); *Bray v. Alexandria Women's Health Clinic*, 506 U.S. 263, 286 (1993) (reversing holding of lower courts granting relief under federal law while noting that state law may provide similar relief on remand); *City of Columbia v. Omni Outdoor Advertising*, 499 U.S. 365, 384 (1991) (addressing question regarding immunity under Sherman Act while remanding for further proceedings involving other allegations and state law competition claim).

The Lanham Act claim is legally distinct from Static Control's North Carolina claims and, if the Sixth Circuit's reinstatement of the Lanham Act claim stands, the Lanham Act might provide an independent basis for potential liability for the alleged false advertising. Thus, the parties have a real interest in the resolution of the question presented by this Petition.

This case presents a clear opportunity for this Court to resolve the circuit split regarding the test for standing in false advertising claims brought under Section 43(a). The issue is directly presented and can be resolved independent of any factual disputes and without consideration of any other claims or issues. Thus, this case is an appropriate vehicle for this Court to resolve the circuit split identified in Lexmark's Petition.

III. The Sixth Circuit's "reasonable interest test" is inconsistent with the well-established prudential standing doctrine.

Static Control's final argument in opposition to Lexmark's Petition is that "Lexmark provides no argument or reasoned justification for reversing the Sixth Circuit's application of the reasonable interest test apart from its interest in changing the result." Brief in Opposition, pp. 14-15. In so arguing, Static Control confuses the purpose of a petition for writ of certiorari with that of a merits brief. Indeed, even if this Court were to conclude that the Sixth Circuit was correct in adopting the version of the reasonable interest test it applied here, this case would still provide an appropriate vehicle for this Court to address the issue and resolve the circuit split.

However, the Sixth Circuit's application of the reasonable interest test is contrary to the purposes of the Lanham Act and in conflict with established law regarding the necessity of prudential standing. The reasonable interest test as articulated by the Sixth Circuit in this case is little more than a gloss on the statutory language of Section 43(a) and does not account for the background prudential standing requirements that must be presumed to have been incorporated into the statute absent an express legislative statement to the contrary. *Bennett v. Spear*, 520 U.S. 154, 163 (1997) ("Congress legislates against the background of our prudential standing doctrine, which applies unless it is expressly negated."). Indeed, neither the Sixth Circuit opinion in this case nor the opinion in *Frisch's Restaurants* even acknowledges or discusses the requirements for prudential standing.

Static Control Components, Inc., 697 F.3d at 409-411, Pet. App. 34-38; *Frisch's Rests., Inc. v. Elby's Big Boy of Steubenville, Inc.*, 670 F.2d 642, 649-50 (6th Cir. 1982).

Concluding that it was bound by "a prior published decision ... absent inconsistent Supreme Court precedent or an en banc reversal," the Sixth Circuit in this case held that a claimant has standing if the claimant can demonstrate "(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising."[4] *Static Control*, 697 F.3d at 410-411, Pet. App. 36-37. This test is materially the same as the test for *Article III standing* and fails to account for the prudential considerations necessary to "determine whether the plaintiff is 'a proper party to invoke judicial resolution of the dispute and the exercise of the court's remedial powers.'" *Conte Bros.*, 165 F.3d at 225 (*citing Bender v. Williamsport Area Sch. Dist.*, 475 U.S. 534, 546 n.8 (1986)).

As summarized by the Third Circuit in *Conte Brothers*, Article III standing "requires a plaintiff to demonstrate that he or she suffered 'injury in fact,' that the injury is 'fairly traceable' to the actions of the defendant, and that the injury will likely be redressed by a favorable decision." 165 F.3d at 225. It would appear that any plaintiff who could satisfy the "injury

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[4] This test is largely drawn from the statutory language providing that a party making false or misleading representations "shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act." 15 U.S.C. § 1125(a)(1).

in fact" and "fairly traceable" elements necessary for Article III standing would meet the Sixth Circuit's requirement for "a reasonable interest" that is "likely to be damaged by the alleged false advertising."

Accordingly, the Sixth Circuit's position is essentially the same as the "plain language argument" of the appellant in *Conte Brothers*. *Id.* at 228. However, as the Third Circuit explained, application of the prudential standing doctrine "does no violence to the plain meaning of the statute, because, as explained above, Congress intends to incorporate prudential standing principles unless it expresses its desire to negate them." *Id.* Rather, based upon a careful analysis of the statue and its history, the Third Circuit rightly concluded that:

> Conferring standing to the full extent implied by the text of § 43(a) would give standing to parties, such as consumers, having no competitive or commercial interests affected by the conduct at issue. This would not only ignore the purpose of the Lanham Act as expressed by § 45, but would run contrary to [Third Circuit] precedent and that of other federal appellate courts.

Id. at 229 (internal citations omitted). Similarly, as reflected in *Conte Brothers*' analysis of the Act's legislative history, the plaintiff's role as a competitor should be a significant factor in the standing analysis. *Id.* (*citing* S. Rep. No. 100-515, 100th Cong., 2d Sess., reprinted in 1988 U.S.C.C.A.N. 5577, 5604 (May 12, 1988) (characterizing "competition between the parties" as a "traditional trademark infringement question[]").

The particularly expansive version of the reasonable interest test adopted by the Sixth Circuit is contrary to the "purpose of the Lanham Act as expressed by § 45" and is at odds with this Court's prudential standing jurisprudence. *Conte Bros.* at 229. Furthermore, the Sixth Circuit's holding in this case widens the already deeply entrenched and longstanding split among the circuits as to the proper test for standing under the Lanham Act.[5] Accordingly, this case presents an ideal vehicle to allow this Court to provide direction to the lower federal courts regarding the proper approach for determining prudential standing for a plaintiff asserting a false advertising claim under the Lanham Act.

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[5] While the Sixth Circuit in this case believed that it was bound by the *Frisch's Restaurants* 1982 opinion, it is far from clear that *Frisch's* was actually controlling. *Frisch's Restaurants* (1) did not address non-competitor standing at all because the parties there were "competing restaurant chains" (670 F.2d at 648), (2) considered the question of standing under the Lanham Act with respect to a false association claim only, and not a false advertising claim such as the one at issue here (*id.* at 644), and (3) employed its "test" in determining whether the plaintiff had made the required showing for a preliminary injunction, not damages (*id.* at 649-50). Quoting *Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186, 189 (2d Cir. 1980), the opinion in *Frisch's Restaurants* stated that "a plaintiff seeking an injunction" only—as the claimant in that case did—could more easily establish standing than a claimant seeking "money damages" as Static Control does in this case. 670 F.2d at 650 ("If such a showing is made, the plaintiff will have established a reasonable belief that he is likely to be damaged within the meaning of § 43(a) and will be entitled to injunctive relief, as distinguished from damages, which would require more proof.").

CONCLUSION

For these reasons, Petitioner asks that this Petition for Writ of Certiorari be granted.

Respectfully submitted on this the 10th day of May, 2013.

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JOINT APPENDIX

RECORD
AND
BRIEFS

No. 12-873

Supreme Court, U.S.
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In the Supreme Court of the United States

LEXMARK INTERNATIONAL, INC.,
Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

JOINT APPENDIX

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Petition for Writ of Certiorari filed January 14, 2013
Petition for Writ of Certiorari granted June 3, 2013

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TABLE OF CONTENTS

Relevant Docket Entries United States District Court for the Eastern District of Kentucky, Case No. 5:02-cv-00571-GFVT-JBT . . . . . JA 1

Relevant Docket Entries United States District Court for the Eastern District of Kentucky, Case No. 5:04-cv-00084-GFVT-REW . . . . . JA 2

Relevant Docket Entries United States Court of Appeals for the Sixth Circuit, Nos. 09-6287, -6288, -6449 . . . . . JA 6

Static Control's Second Amended Answer and Counterclaim in the United States District Court for the Eastern District of Kentucky, Case No. 5:02-cv-00571-KSF (December 23, 2003) . . . . . JA 8

Order Denying Static Control's Motion for Reconsideration of the Court's Order Dismissing Static Control's Claims or, in the Alternative, to Amend Its Pleading in the United States District Court for the Eastern District of Kentucky, Consolidated Case Nos. 5:02-cv-00571 and 5:04-cv-00084 (June 1, 2007) . . . . . JA 55

Civil Minutes—Trial in the United States District Court for the Eastern District of Kentucky, Case No. 5:04-cv-00084-GFVT (June 19, 2007) ..... JA 62

Amended Final Judgment in the United States District Court for the Eastern District of Kentucky, Consolidated Case Nos. 5:02-cv-00571 and 5:04-cv-00084 (October 27, 2009) ..... JA 66

The following opinions, decisions, judgments, orders and statute have been omitted in printing this joint appendix because they appear on the following pages in the appendix to the Petition for a Writ of Certiorari:

Appendix A Opinion and Judgment of the United States Court of Appeals for the Sixth Circuit (August 29, 2012) . . . . . App. 1

Appendix B Order of the United States District Court for the Eastern District of Kentucky Central Division at Lexington (September 28, 2006) . . . . . App. 67

Appendix C Order Denying Rehearing of the United States Court of Appeals for the Sixth Circuit (October 26, 2012) . . . . . App. 90

Appendix D Statutory Provision Involved 15 U.S.C. § 1125 . . . . . App. 92

RELEVANT DOCKET ENTRIES

United States District Court for the Eastern District of Kentucky at Lexington

5:02-cv-00571-GFVT-JBT

Lexmark International, Inc. v. Static Control Components, Inc.

Date Filed	#	Docket Text
* * *		
12/23/2003	172	Static Control's Second Amended Answer & Counterclaims
* * *		

United States District Court for the Eastern District of Kentucky at Lexington

5:04-cv-00084-GFVT-REW

Static Control Components, Inc. v. Lexmark International, Inc.

Date Filed	#	Docket Text
		* * *
12/07/2005	176	Lexmark's Motion to Dismiss the Counterclaim of Defendant Static Control, Under F.R.Civ.P. 12(b)(6) and to Dismiss or Strike Certain Affirmative Defenses
		* * *
12/28/2005	182	Static Control's Opposition to Lexmark's Rule 12(b)(6) Motion to Dismiss the Counterclaim and to Dismiss or Strike Affirmative Defenses
		* * *
01/17/2006	191	Lexmark's Reply Memorandum in Support of Motion to Dismiss the Counterclaim of Defendant Static Control, Under F.R.Civ.P. 12(b)(6) and to Strike Certain Affirmative Defenses
		* * *

01/24/2006	195	Static Control's Motion for Leave to File Surreply to Lexmark's Rule 12(b)(6) Motion to Dismiss the Counterclaim and to Dismiss or Strike Affirmative Defenses
	* * *	
02/02/2006	199	Lexmark's Response to Static Control's Motion for Leave to File a Surreply to Lexmark's Rule 12(b)(6) Motion to Dismiss the Counterclaim and to Dismiss or Strike Affirmative Defenses
	* * *	
08/18/2006	357	Static Control's Motion for Leave to File a Supplemental Brief in Opposition to Lexmark's Rule 12(b)(6) Motion to Dismiss the Counterclaim and to Dismiss or Strike Affirmative Defenses
	* * *	
09/05/2006	369	Lexmark's Response to Static Control's Motion for Leave to File a Supplemental Brief in Opposition to Lexmark's Rule 12(b)(6) Motion to Dismiss the Counterclaim and to Dismiss or Strike Affirmative Defenses
	* * *	
09/28/2006	391	Order (denying Static Control's Motion for Leave to File Surreply to Lexmark's Rule 12(b)(6) Motion to Dismiss the Counterclaim and to Dismiss or Strike Affirmative Defenses, D.E. 195)

09/28/2006	392	Order (granting Lexmark's Motion to Dismiss the Counterclaims of Defendant Static Control, D.E. 176)
	* * *	
10/13/2006	407	Static Control's Motion for Reconsideration of the Court's Order Dismissing Static Control's Claims or, in the Alternative, to Amend Its Pleading
	* * *	
10/30/2006	422	Lexmark's Memorandum of Law in Response to Static Control's Motion for Reconsideration of the Court's Order Dismissing Static Control's Claims, or, in the Alternative, to Amend Its Pleading
	* * *	
11/13/2006	463	Static Control's Reply Brief in Support of Its Motion for Reconsideration of the Court's Order Dismissing Static Control's Claims or, in the Alternative, to Amend Its Pleading
	* * *	
06/01/2007	1259	Order (denying Static Control's Motion for Reconsideration of the Court's Order Dismissing Static Control's Claims or, in the Alternative, to Amend Its Pleading, D.E. 407)
	* * *	

06/15/2007	1318	Static Control's Motion to Amend Pleadings to Conform to the Evidence Under Fed.R.Civ.P. 15(b)
	* * *	
06/17/2007	1347	Lexmark's Response to Static Control's Motion to Amend Pleadings to Conform to the Evidence Under Fed.R.Civ.P. 15(b)
	* * *	
06/21/2007	1359	Civil Minutes-Trial (denying Static Control's Motion to Amend Pleadings to Conform to the Evidence Under Fed.R.Civ.P. 15(b), D.E. 1318)
	* * *	
10/27/2009	1461	Amended Final Judgment
	* * *	
11/10/2009	1465	Static Control's Second Amended Notice of Appeal in Case No. 5:02-cv-571-GFVT
	* * *	

United States Court of Appeals
for the Sixth Circuit

09-6287, -6288, -6449

Static Control Components, Inc v. Lexmark International, Inc.

Date Filed	Docket Text
01/10/2011	First Brief of Plaintiff-Appellant Cross-Appellee (Static Control)
* * *	
03/07/2011	Second Brief of Defendant-Appellee Cross-Appellant (Lexmark)
* * *	
04/12/2011	Third Brief of Plaintiff-Appellant Cross-Appellee (Static Control)
* * *	
08/29/2012	Opinion and Judgment
* * *	
09/12/2012	Petition for Rehearing En Banc and Petition for Panel Rehearing (Lexmark)
* * *	
10/11/2012	Response to Petition for Rehearing En Banc and Petition for Panel Rehearing (Static Control)

10/26/2012	Order Denying Rehearing
* * *	

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
AT LEXINGTON

CASE NO. 02-571-KSF

[Filed December 23, 2003]

LEXMARK INTERNATIONAL, INC.	)
PLAINTIFF	)
v.	)
	)
STATIC CONTROL COMPONENTS, INC.	)
DEFENDANT	)
	)

SECOND AMENDED ANSWER AND COUNTERCLAIM
(Jury Trial Demanded)

Defendant Static Control Components, Inc. ("SCC") hereby answers Plaintiff Lexmark International, Inc.'s ("Lexmark") Complaint as follows:

1. SCC admits that the Complaint in this action purports to seek injunctive relief based upon allegations under the Copyright Act, 17 U.S.C. § 101 *et seq*., and the Digital Millennium Copyright Act, 17 U.S.C. § 1201 *et seq*. Except as expressly admitted, SCC denies the averments contained in Paragraph 1.

2. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 2, and therefore denies the averments contained therein.

3. SCC admits that it is a North Carolina corporation with a principal place of business in Sanford, North Carolina, and that SCC manufactures and sells components for remanufactured toner cartridges in numerous jurisdictions. SCC denies the remaining averments contained in Paragraph 3.

4. Lexmark's averments in Paragraph 4 in support of the Court's jurisdiction and venue are legal conclusions, and as such are not subject to denial or admission.

5. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 5, and therefore denies the averments contained therein.

6. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 6, and therefore denies the averments contained therein.

7. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 7, and therefore denies the averments contained therein.

8. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 8, and therefore denies the averments contained therein.

9. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph

9, and therefore denies the averments contained therein.

10. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 10, and therefore denies the averments contained therein.

11. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 11, and therefore denies the averments contained therein.

12. SCC admits that Lexmark distributes toner cartridges for use in its installed base of laser printers, and that Lexmark currently is the exclusive source for new printer toner cartridges for the printers it manufactures. SCC does not have knowledge or information sufficient to form a belief as to the truth of the remaining averments contained in Paragraph 12, and therefore denies same.

13. SCC admits that in 1997, Lexmark announced its "Prebate" program. SCC denies the remaining averments contained in Paragraph 13.

14. SCC denies that Lexmark's Prebate program is a "discount" program. SCC does not have knowledge or information sufficient to form a belief as to the truth of the remaining averments contained in Paragraph 14, and therefore denies same.

15. SCC denies the averments contained in Paragraph 15.

16. SCC denies that in acquiring a Prebate toner cartridge, a customer agrees to certain license/agreement terms in return for a lower price or upfront rebate. SCC does not have knowledge or information sufficient to form a belief as to the truth of the remaining averments contained in Paragraph 16, and therefore denies same.

17. SCC does not have knowledge or information sufficient to form a belief as to the truth of whether the Prebate program has significantly increased toner cartridge returns to Lexmark, and therefore denies same. SCC denies the remaining averments contained in Paragraph 17.

18. SCC denies the averments contained in Paragraph 18.

19. SCC denies the averments contained in Paragraph 19.

20. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 20, and therefore denies the averments contained therein.

21. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 21, and therefore denies the averments contained therein.

22. SCC admits that Lexmark markets T520/522 and T620/622 laser printers and toner cartridges. SCC denies the remaining averments contained in Paragraph 22.

23. SCC denies the averments contained in Paragraph 23.

24. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 24, and therefore denies the averments contained therein.

25. SCC denies the averments contained in Paragraph 25.

26. SCC admits that Lexmark obtained Certificates of Registration from the Register of Copyrights. SCC denies the remaining averments contained in Paragraph 26.

27. SCC denies the averments contained in Paragraph 27.

28. SCC admits that calculations by, and communications between, the printer and the toner cartridge each time a toner cartridge is installed in the printer, the printer is powered on, or whenever the printer is opened and then closed, are used to prevent printer functionality. SCC further admits that both the printer and the microchip on the toner cartridge calculate a code referred to as a Message Authorization Code. SCC denies the remaining averments contained in Paragraph 28.

29. SCC admits the averments of the first sentence of Paragraph 29. SCC denies the remaining averments contained in Paragraph 29.

30. SCC admits the averments contained in Paragraph 30.

31. SCC admits that it manufactures and sells a line of replacement microchips sold under the brand "SMARTEK," and that certain microchips labeled under the "SMARTEK" brand are designed for use in Lexmark's T520/522 and T620/622 laser printers. SCC denies the remaining averments contained in Paragraph 31.

32. SCC denies the averments contained in Paragraph 32.

33. SCC admits that the toner cartridges for the Lexmark T520/522 and T620/622 laser printers are sold as "Prebate" toner cartridges and "Regular" toner cartridges. SCC does not have knowledge or information sufficient to form a belief as to the truth of remaining averments of Paragraph 33, and therefore denies same.

34. SCC admits that the Lexmark's "Prebate" toner cartridge has been designed to no longer operate after its initial use if it is refilled with toner. SCC denies the remaining averments of Paragraph 34.

35. SCC admits that a Regular toner cartridge for a Lexmark T520/522 or T620/622 printer may be refilled. SCC does not have knowledge or information sufficient to form a belief as to the truth of Paragraph 35, and therefore denies the averments contained therein.

36. SCC admits that toner cartridges containing a SMARTEK microchip may be able to function with Lexmark's T520/522 and T620/622 laser printers. SCC denies the remaining averments contained in Paragraph 36.

37. SCC denies the averments contained in Paragraph 37.

38. SCC denies the averments contained in Paragraph 38.

39. In response to Paragraph 39, SCC incorporates herein by reference its responses to each and every allegation of Paragraphs 1-38 of the Complaint, as if set forth fully herein.

40. SCC denies the averments contained in Paragraph 40.

41. SCC denies the averments contained in Paragraph 41.

42. SCC denies the averments contained in Paragraph 42.

43. In response to Paragraph 43, SCC incorporates herein by reference its responses to each and every allegation of Paragraphs 1-42 of the Complaint, as if set forth fully herein.

44. SCC admits that Paragraph 44 correctly quotes 17 U.S.C. § 1201(a)(2)(A)-(C), and that this is a section of the Digital Millennium Copyright Act. SCC denies all other averments contained in Paragraph 44.

45. SCC denies the averments contained in Paragraph 45.

46. SCC denies the averments contained in Paragraph 46.

47. In response to Paragraph 47, SCC incorporates herein by reference its responses to each and every allegation of Paragraphs 1-46 of the Complaint, as if set forth fully herein.

48. SCC denies the averments contained in Paragraph 48.

49. SCC denies the averments contained in Paragraph 49.

50. SCC denies the averments contained in Paragraph 50.

RELIEF REQUESTED

Paragraphs A-G set forth prayers for relief as to which no response is required. To the extent that these paragraphs may be deemed to set forth any facts asserting entitlement to such relief, SCC denies that Lexmark is entitled to any of the relief it seeks under paragraphs A-G, inclusive.

AFFIRMATIVE DEFENSES

SCC asserts the following affirmative defenses, applicable to each and every cause of action alleged in the Complaint:

1. The Complaint fails to set forth facts sufficient to state a claim upon which relief may be granted against SCC. The Complaint further fails to set forth facts sufficient to entitle Lexmark to the relief sought, or any relief whatsoever, from SCC.

2. The Complaint should be dismissed for lack of personal jurisdiction over SCC.

3. SCC did not copy any protectable elements of any copyrightable work owned by Lexmark.

4. Lexmark's Copyright Registrations for its Toner Loading Programs and/or Printer Engine Programs are invalid because said programs do not contain the requisite degree of authorship and therefore are not protectable by copyright.

5. Lexmark's Copyright Registrations for its Toner Loading Programs and/or Printer Engine Programs are invalid because said programs consist only of ideas, procedures, processes, systems, methods of operation, concepts, principles, plans, discoveries, plans, devices, or words and short phrases and therefore are not protectable by copyright.

6. Lexmark's Copyright Registrations for its Toner Loading Programs are invalid because the programs consist entirely of an unprotectable "lock-out code."

7. Lexmark's Copyright Registrations for its Toner Loading Programs are invalid because said programs consist of mathematical formulae and constants, which are not protectable by copyright.

8. SCC's copying of and reverse engineering of Lexmark's Toner Loading Programs are protected as Fair Use under 17 U.S.C. § 107.

9. SCC's activities constitute lawful reverse engineering for purposes of attaining interoperability, and thus are protected from liability under 17 U.S.C. § 1201(f).

10. The alleged technological measure incorporated in the Lexmark printer and toner cartridge chip does not control "access" within the meaning of 17 U.S.C. § 1201(a)(2).

11. The Toner Loading Programs and Printer Engine Program are not the type of "work" that is protected under 17 U.S.C. § 1201(a)(2).

12. Lexmark is barred from prosecuting a copyright infringement or DMCA claim because it has misused its copyrights in order to assert control over noncopyrighted material and such leveraged use of a copyright is violative of the public policy embodied in the grant of copyright.

13. Lexmark is barred from prosecuting a copyright infringement or DMCA claim because it has misused its copyrights to assert control over noncopyrighted material. Such leveraged use of a copyright is violative of the antitrust laws.

14. The Complaint, and each claim for relief therein that seeks equitable relief, is barred by the doctrine of unclean hands.

15. SCC reserves the right to assert additional affirmative defenses at such time and to the extent warranted by discovery and the factual development of this case.

JURY TRIAL REQUESTED

SCC requests a trial by jury of all issues so triable.

PRAYER FOR RELIEF

WHEREFORE, Defendant Static Control Components, Inc., prays as follows:

(1) That no relief be afforded to Lexmark and that the Complaint be dismissed in its entirety;

(2) That Lexmark's Copyright Registrations attached to the Complaint as Exhibits A, B and C be adjudged invalid;

(3) That Lexmark's Copyright Registrations attached to the Complaint as Exhibits A, B and C be adjudged unenforceable until such time, if any, as it has purged the effects of the misuse of its copyrights;

(4) That judgment be granted in favor of SCC and against Lexmark on Counts 1-111 of the Complaint;

(5) That SCC be awarded its costs of defense and reasonable attorneys' fees incurred because of this litigation; and

(6) For such other relief in favor of SCC as the Court may deem just and proper.

COUNTERCLAIM

Defendant and counterclaim plaintiff, STATIC CONTROL COMPONENTS, INC. ("SCC") sues Plaintiff and counterclaim defendant LEXMARK INTERNATIONAL, INC. ("Lexmark") and says:

OVERVIEW

1. SCC brings this action, in part, under the United States antitrust laws and North Carolina competition laws against Lexmark for its illegal conduct arising from anticompetitive acts affecting the markets for remanufactured toner cartridges used in certain Lexmark printer models, for components used to remanufacture toner cartridges used in the same Lexmark printer models, and for microchips used in toner cartridges for the same Lexmark printer models. Lexmark has conspired to restrain trade with microchips suppliers, including refusals to deal with SCC and other competitors, which has resulted in reduced output and higher prices. Lexmark also has conspired with microchips suppliers and other brand name computer equipment suppliers to monopolize the market for refurbished toner cartridges for certain Lexmark manufactured printers and the market for components used to refurbish certain Lexmark manufactured printers. Moreover, Defendant has monopolized or attempted to monopolize the relevant markets. All of this anticompetitive conduct has injured competition and consumers in the United States and foreign countries by reducing output,

excluding competitors, and raising prices. As a result of Lexmark's anticompetitive conduct, SCC has sustained injuries for which it seeks money damages, injunctive relief to end the illegal conduct, and other appropriate relief to compensate it for its harm.

2. SCC brings this action, in part, against Lexmark under the Lanham Act and North Carolina unfair competition law for its illegal, misleading intimidation of SCC's customers and for misleading information it disseminated to customers and end-users. Lexmark has falsely informed customers that SCC's products infringe Lexmark's purported intellectual property. Lexmark has misled end-users of Lexmark toner cartridges and customers of SCC's products that license agreements prohibit remanufacturing Lexmark toner cartridges, when no license agreements actually exist. Lexmark also has misled its consumers and end-users into purchasing printers that contain toner cartridges, which are purported to be subject to license agreements. Lexmark's false and misleading statements cause consumers and others in the trade to believe that SCC's products are illegal and unlawful, that SCC is engaged in unlawfid conduct, and that SCC is a dishonest and disreputable business. As a result of Lexmark's illegal conduct, SCC has sustained injury for which it seeks money damages, injunctive relief, and other appropriate relief to compensate it for the harm it has suffered.

JURISDICTION AND VENUE

3. SCC brings this action, in part, pursuant to Sections 4 and 16 of the Clayton Act, 15 U.S.C. §§ 15

and 26, against Lexmark for injuries SCC sustained as a result of Lexmark's violations of Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2, as alleged herein. SCC seeks injunctive relief and damages, including treble damages, costs of suit, and reasonable attorneys' fees.

4. SCC brings this action, in part, under 28 U.S.C. §§ 1331 and 1338 for damages sustained by SCC as a result of Lexmark's violations of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), as alleged herein.

5. SCC also brings this action under 28 U.S.C. § 1332, to recover damages, including treble damages, costs of suit, and reasonable attorneys' fees, against Lexmark for injuries sustained by SCC as a result of violations of North Carolina's competition laws, N.C. Gen. Stat. §§ 75-1,75-1.1,75-2.1; and common law civil conspiracy as alleged herein.

6. Personal jurisdiction exists over the Lexmark pursuant to Lexmark's Complaint in this action, Section 12 of the Clayton Act, 15 U.S.C. § 22, and the Kentucky Long Arm Statute, Ky. Rev. Stat. § 454.210.

7. Venue is proper in this Court pursuant to Section 12 of the Clayton Act, 15 U.S.C. § 22, and 28 U.S.C. §§ 1391(a), (b), (c), and 1400(a). Lexmark maintains offices, has representatives, may be found, and/or transacts business within this District within the meaning of Section 12 of the Clayton Act, 15 U.S.C. § 22.

8. Lexmark illegally contracts, combines, and conspires with persons and entities that have

committed, and continue to commit, overt acts within Kentucky in furtherance of the contract, combination, and conspiracy alleged in this Complaint.

9. Lexmark's conduct has unlawfully restrained the domestic and foreign commerce of the United States and injured consumers in the United States and foreign countries.

10. As a result of Lexmark's anticompetitive acts, as alleged in this Complaint, consumers and SCC have sustained harm in North Carolina.

PARTIES

11. SCC is a North Carolina corporation with its principal place of business in Sanford, North Carolina.

12. Lexmark, on information and belief, is a Delaware corporation with a principal place of business in Lexington, Kentucky. Lexmark is an original equipment manufacturer ("OEM") of laser toner printers and compatible laser toner cartridges.

13. On information and belief, Lexmark has for many years engaged in substantial business activities in North Carolina and Kentucky and continues to engage in such activities by, among other things, promoting and selling its goods and services to customers located in North Carolina and Kentucky.

INTERSTATE COMMERCE

14. Lexmark's activities, including activities related to its illegal, anticompetitive conduct, are in the flow of and substantially affect interstate commerce.

15. Among other things, Lexmark's anticompetitive conduct results in communications across state lines using interstate telecommunications networks, the Internet, and the U.S. mail. Lexmark also ships products, which are at issue in this Complaint, across state lines. Lexmark reaps substantial revenues from sales of products, which are at issue in this Complaint, amounting to millions of dollars, throughout the United States.

RELEVANT MARKET AND LEXMARK'S MARKET POWER

16. The relevant geographic market for purposes of SCC's claim is worldwide, including the United States and other relevant submarkets thereof.

17. The relevant product markets for purposes of SCC's claims comprise:

(a) Lexmark toner cartridges for use in Optra S series, Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models ("Cartridges Market");

(b) components and toner used to remanufacture Lexmark toner cartridges for use in Optra S series, Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models ("Components Market");

(c) and microchips used in Lexmark toner cartridges for use in Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models ("Microchips Market").

18. Lexmark has and exercises market power within the relevant markets. On information and belief, Lexmark has approximately an 85% share in each of the relevant markets.

19. As alleged herein, no substitutes are available to customers and end-users for products within the Cartridges, Components, and Microchips Markets. As alleged herein, barriers to entry into the Cartridges, Components, and Microchips Markets include Lexmark's unlawful anticompetitive activities to exclude competition.

20. Lexmark's anticompetitive conduct in the relevant markets has excluded competitors and resulted in consumers paying higher prices than would

have prevailed in competitive markets. Consumers paying higher prices and the exclusion of competitors are indicia of Lexmark's market power and unlawful anticompetitive conduct.

LEXMARK'S ANTICOMPETITIVE ACTIVITIES

21. This action arises out of Lexmark's anticompetitive activities in the relevant markets. That anticompetitive conduct includes:

(a) a conspiracy by Lexmark and its microchip suppliers to restrain trade, including refusals to deal with SCC and competitors, that has restricted output and increased prices;

(b) a conspiracy by Lexmark, microchip suppliers, and resellers of Lexmark manufactured printers to monopolize the relevant markets; and

(c) Lexmark' s unilateral monopolization and attempted monopolization of the relevant markets.

22. Lexmark makes a variety of laser toner printer models and sells them directly to consumers and end-users. Many, if not the majority, of Lexmark's consumers are individuals as opposed to business purchasers. Lexmark also supplies printers to other computer equipment manufacturers, which in turn resell those printers under their own brands.

23. To function properly, a Lexmark laser toner printer, like all such printers, must contain a compatible laser toner cartridge. Toner cartridges are depleted during a printer's normal operation.

24. Lexmark also makes and sells replacement laser toner cartridges that are compatible only with its laser toner printers. Lexmark designs its printers so only a Lexmark-designed toner cartridge will work with a particular Lexmark printer model. No other manufacturer makes new toner cartridges compatible with Lexmark printers. As with its printers, Lexmark also supplies toner replacement cartridges to other computer equipment manufacturers, which in turn resell those cartridges under their own brands.

25. Lexmark sells its printers for very little, if any profit. Lexmark sells replacement toner cartridges—a major component of its total supplies sales—for a substantial profit. Lexmark perceives its revenue for supplies as critical to its business. Lexmark has stated, "Recurring supplies add stability/growth." In 2002, Lexmark derived 54% of its total revenue from supplies sales, as compared to 33% in 1999.

26. Lexmark perceives its initiatives in developing laser printers as "opportunities" that "drive[] supplies." Lexmark introduces new model printers and compatible toner cartridges every few years. Generally, Lexmark discontinues an old model printer upon introducing a new model. Lexmark continues to sell replacement toner cartridges for a discontinued printer model for many years.

27. Laser toner cartridges contain toner and other components. Toner is the ink in the xerographic process used in laser printers. Most of the other components in the toner cartridge have a usable life beyond the initial toner load. If the toner cartridge is repaired and/or overhauled and new toner added, the toner cartridge can be reused. This constitutes remanufacturing toner cartridges.

28. Remanufacturing toner cartridges is the most environment-friendly way of handling depleted toner cartridges. The plastic toner cartridge is made of heat resistant plastic that is difficult to recycle for other uses. Moreover, toner cartridges thrown away in landfills require hundreds of years to begin to decompose.

29. Remanufacturers disassemble used OEM laser toner cartridges, inspect and clean them, replace any worn components, and add toner. The resulting remanufactured laser toner cartridge sells at a substantial discount compared to the price of a new toner cartridge. On information and belief, third-party remanufactured Lexmark toner cartridges for Optra S series, Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models are priced approximately 50-75% of the price of new toner cartridges for the same Lexmark printer models.

30. SCC is a leading supplier to toner cartridge remanufacturers. SCC supplies, among other things, toner and other components used by SCC's customers in remanufacturing Lexmark toner cartridges.

31. Because Lexmark printer owners can buy toner cartridges only from Lexmark or remanufacturers, every remanufacturer's sale is a lost Lexmark sale. No substitutes are available to consumers and end-users that need toner cartridges for Lexmark printers.

32. Lexmark has taken a series of actions designed intentionally to inhibit and exclude competition in the relevant markets. These actions, discussed in detail below, include (1) promoting a sham Prebate program; (2) incorporating into Lexmark toner cartridges "killer microchips" that Lexmark designed in concert with microchips suppliers solely to preserve Lexmark's market position and exclude competition; (3) revoking the status of Lexmark-authorized service providers when those providers sell remanufactured Lexmark toner cartridges; (4) putting in place a program to price selectively toner cartridges to undercut identified remanufacturers; and (5) conspiring to threaten competitors.

33. Lexmark specifically launched its Prebate program to intimidate and to exclude competition from remanufacturers. Exploiting Prebate, Lexmark also effects its deliberate, unlawful, anticompetitive intent to raise prices and exclude competition. Lexmark purports to offer two toner cartridges for each of its printer models—one cartridge labeled "Prebate" and a physically identical, higher priced cartridge that lacks the Prebate label. Lexmark charges substantially more for toner cartridges not labeled Prebate, and it does not make non-Prebate toner cartridges readily available. Lexmark asserts that customers who buy Prebate cartridges are bound by a licensing agreement to use

Prebate cartridges only once and to return depleted Prebate cartridges only to Lexmark.

34. On information and belief, computer equipment manufacturers that purchase Lexmark-manufactured laser printers and replacement toner cartridges for resale also restrict end-users' use of the toner cartridge with the sham Prebate license or similar anticompetitive marketing schemes.

35. Lexmark sent letters to most of the companies in the toner cartridge remanufacturing business upon introducing Prebate. Lexmark falsely claimed that remanufacturing Prebate-labeled toner cartridges violates Lexmark's intellectual property rights and that Prebate toner cartridges could not be legally remanufactured. Lexmark falsely informed remanufacturers that if they used SCC's products to remanufacture Lexmark toner cartridges, the customers would violate the law. Lexmark has threatened suing its competitors that remanufacture Prebate toner cartridges. Because Lexmark sells virtually all its toner cartridges with the Prebate label, its program has the intended effect of excluding competition and increasing prices to consumers in the relevant markets by restricting the supply of Lexmark toner cartridges.

36. Lexmark's actions are designed to eliminate competition and to ensure that only it supplies replacement toner cartridges, whether new or remanufactured. On information and belief, Lexmark packages each printer it sells with a Prebate toner cartridge. Lexmark does not sell printers that come packaged with non-Prebate cartridges.

37. Because of Lexmark's deception and fraudulent inducement, customers and end-users do not know that, at the time they purchase Lexmark printers, they are locked-in to purchasing replacement toner cartridges for these printers only from Lexmark. Lexmark intentionally does not inform customers and end-users of its Optra S series, Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models that the only toner cartridges that accompany these printers are Prebate toner cartridges. Lexmark's deliberate nondisclosure of this fact fraudulently induces customers' use of Prebate cartridges. Customers and end-users thus do not have any practical choice other than to use Prebate cartridges with their newly purchased Lexmark laser printers. Lexmark also deceptively omits from packaging containing new printers any information about Prebate, thereby exploiting consumers' lack of information about choices in replacement cartridges. As a result, Lexmark printer customers do not know that Lexmark asserts that Prebate toner cartridges cannot be reused or refilled by third parties.

38. Customers and end-users are unable to calculate life-cycle costs of operating Lexmark printers due to, among other things, Lexmark's deceptive dissemination of misleading information. Lexmark is aware that it unlawfully deceives consumers about life-cycle costs, and has boasted to investors that exploiting consumers' ignorance will increase Lexmark's profitability: "Most companies don't know [the] total cost of printing. . ." Lexmark's anticompetitive exploitation of consumers' and

end-users' lack of adequate information increases prices and reduces output in the relevant markets.

39. On information and belief, after an end-user purchases a Lexmark printer, Lexmark purposefully misleads end-users to believe that they have a restricted license on Lexmark toner cartridges—to the extent that consumers are even aware of this license—and that the license requires customers and end-users to purchase toner cartridges only from Lexmark. Lexmark, however, knows that its end-users have no such restricted license agreement. Lexmark's sole purpose for deceiving end-users to believe they are contractually bound by this agreement to use only Lexmark toner cartridges is to preserve, maintain, and enhance its unlawful monopoly power in the relevant markets.

40. Through Prebate, Lexmark also seeks to extend its patent rights beyond their scope, which constitutes patent misuse. By using the sham Prebate license to deceive customers and end-users that they are bound by a restrictive license agreement, Lexmark misuses its patent rights to preserve, maintain, and enhance its unlawful monopoly power in the relevant markets.

41. On information and belief, there is no substantive difference in the sales process when a customer or end-user purchases a separately packaged Prebate-labeled Lexmark replacement toner cartridge, which includes the sham restricted license, or when a customer or end-user purchases a separately packaged non-Prebate Lexmark replacement toner cartridge. Customers or end-users do not know—and Lexmark

deliberately fails to disclose-that a consumer's purchase of a Lexmark replacement toner cartridge labeled Prebate creates a sham restrictive license between Lexmark and the customer or end-user. Many customers and end-users purchase replacement toner cartridges either on the Internet, through phone orders, or from large retail outlets. Lexmark does not inform consumers and end-users that their simple transactions, which occur without customers or end-users actually viewing the replacement toner cartridge boxes, create purportedly restricted-use licenses.

42. On information and belief, for the purpose of effectuating Lexmark's illegal exclusionary conduct, Lexmark tracks customers and end-users that insist on purchasing non-Prebate cartridges. Lexmark isolates and targets customers and end-users that prefer to use remanufactured toner cartridges as opposed to using Prebate-labeled toner cartridges, which Lexmark insists can be used only once. Lexmark thus is able to unlawfully exclude competition and increase prices to customers and end-users.

43. Those end-users and remanufacturers intimidated by Lexmark's Prebate program—but still seeking to use remanufactured toner cartridges—ordered Lexmark toner cartridges without the Prebate label. Lexmark has sent representatives to these customers and attempted to undercut the remanufacturer's price. If the end-user insisted on buying a remanufactured toner cartridge (typically because of environmental concerns), then Lexmark offered to sell a Lexmark-remanufactured toner cartridge to these end-users. These Lexmark

"remanufactured toner cartridges" were often, on information and belief, actually new toner cartridges labeled "remanufactured." They were also labeled "Prebate."

44. Lexmark began to incorporate electronic components (microchips) into its toner cartridges with the Optra SE printer's introduction. Several Lexmark printer models now incorporate these anticompetitive microchips, including the Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models. Lexmark's co-conspirator microchip manufacturers make these anticompetitive microchips. Lexmark conspired to create and use an algorithm in each microchip that "authenticates" the toner cartridge, making the cartridge unusable with a Lexmark printer when remanufactured by a competitor. The anticompetitive microchips share a basic design feature as well as a single, anticompetitive purpose—i.e., the printer will not print unless it identifies a compatible microchip in the toner cartridge. When the initial toner load in a new toner cartridge is exhausted, the microchip is rendered unusable. Thus, a remanufactured toner cartridge cannot be used in Lexmark's "chipped printers" unless the cartridge includes a replacement microchip supplied by the microchip manufacturer. Lexmark and its co-conspirator microchip suppliers refuse to deal with SCC and other competitors to supply such a microchip.

45. Lexmark and its co-conspirator microchip suppliers, from time to time, have acted in concert to redesign the anticompetitive microchips to include

multi-layered, multi-stage encryption. Lexmark's sole purpose for redesigning the anticompetitive microchips is to exclude competitors from the relevant markets, restrict output, and increase end-user prices.

46. Lexmark has conspired with its microchip suppliers so that only Lexmark can purchase the anticompetitive microchips. To ensure that only Lexmark receives the anticompetitive microchips, Lexmark and its co-conspirators have created a system whereby the microchip supplier allocates certain serial numbers to identify each individual anticompetitive microchip, thereby enabling Lexmark and its co-conspirators to track every single anticompetitive microchip that enters the market to ensure that only Lexmark has access to them.

47. Lexmark's purpose for using the anticompetitive microchips with the Lexmark toner cartridges is to exclude competition, restrict output, and increase end-user prices in the relevant markets. As a result of Lexmark's conduct involving the anticompetitive microchips, Lexmark has excluded and otherwise unlawfully restrained competitors from the relevant markets, thereby enhancing Lexmark's dominant, monopoly market position and increasing prices.

48. On information and belief, Lexmark installs anticompetitive microchips in toner cartridges both with the Prebate label and in toner cartridges not labeled Prebate. Customers and end-users that purchase non-Prebate labeled toner cartridges believe that the non-Prebate labeled toner cartridges can be remanufactured without any restriction. Because

Lexmark and its co-conspirator microchip suppliers, acting in concert, have illegally used the anticompetitive microchips to exclude competition in the relevant markets by, among other conduct, refusing to deal with SCC and remanufacturers, those customers and end-users are not aware that the non-Prebate toner cartridges—all of which incorporate the anticompetitive microchips—cannot be remanufactured without any restriction.

49. On information and belief, other printer toner cartridge manufacturers, such as Hewlett-Packard, do not use microchips for the same anticompetitive purpose that Lexmark does. Other printer toner cartridge manufacturers do not similarly restrict customers' abilities to have their toner cartridges remanufactured. Thus, the industry practice is to permit customers to purchase either new or remanufactured replacement toner cartridges from any source, which is less restrictive than Lexmark's use of the anticompetitive microchips and other exclusionary practices. As a result of Lexmark's anticompetitive activities, however, Lexmark printer customers believe that at the time they purchase a Lexmark printer they will be able to use either new replacement toner cartridges or remanufactured toner cartridges from any source with their Optra SE, Optra T series, T520/522, T620/622, e320/322, e220, T630/632/634, e321/323, and T420 Lexmark printer models and the multifunctional peripheral versions of these models.

50. On information and belief, approximately 35% of Hewlett-Packard toner cartridges are remanufactured. On information and belief, approximately 14% of Lexmark toner cartridges are

remanufactured. The disparity in these percentages indicates that Lexmark's exclusionary conduct is having an unlawful anticompetitive effect in the relevant markets.

51. On information and belief, U.S. sales of Lexmark toner cartridges that are remanufactured—as a percentage of total sales of all Lexmark toner cartridges, new and remanufactured—has decreased since 1998. Over the same period, U.S. sales of Hewlett-Packard toner cartridges that are remanufactured—as percentage of total sales of all Hewlett-Packard toner cartridges, new and remanufactured—has increased. These trends indicate that Lexmark's exclusionary conduct is having an unlawful anticompetitive effect in the relevant markets.

52. On information and belief, the prices of Lexmark-supplied replacement toner cartridges in the relevant markets have increased since 1998. Over the same period, the prices of Hewlett-Packard-supplied replacement toner cartridges have remained flat or decreased. These trends indicate that Lexmark's exclusionary conduct is having an unlawful anticompetitive effect in the relevant markets.

53. Lexmark certifies authorized service providers that are able to perform warranty service on Lexmark printers. Many of these authorized service providers sell new and remanufactured Lexmark toner cartridges. Lexmark has embarked on a campaign to revoke the status of authorized service providers. On information and belief, Lexmark is revoking the status

of authorized service providers because Lexmark does not want competitive remanufactured toner cartridges available in the relevant markets. If an authorized service provider remanufactures toner cartridges, Lexmark terminates that service provider's certification. Lexmark's purpose for terminating the authorized service provider is to preserve, maintain, and enhance its monopolies in the relevant markets.

54. Certain suppliers have offered, or have contemplated offering, replacement microchips for Lexmark toner cartridges. On information and belief, Lexmark and its microchip suppliers, acting in concert, have threatened these suppliers in a scheme designed to discourage such offerings. For example, in 2000, SCC met with Lexmark and informed Lexmark that it was contemplating selling microchips. One week after SCC met with Lexmark, Lexmark's microchip supplier sent a letter to SCC threatening patent infringement litigation. Other suppliers of replacement microchips received similar letters. After SCC entered the relevant markets with replacement microchips for toner cartridges for the T520 and T620 Lexmark printer models, Lexmark's microchips supplier sent another letter to SCC alleging infringement based solely on a picture of a microchip on SCC's web site.

55. On information and belief, Lexmark has conspired with its microchips supplier to extend the scope of Lexmark's patents and the microchips supplier's patents beyond the legitimate coverage of those patents' issued claims to intimidate and prevent competitors such as SCC from competing in the relevant markets.

56. In addition, Lexmark has brought its copyright action against SCC not for the purpose of obtaining a favorable judgment or perfecting the claims stated therein, but instead to harass SCC and interfere with SCC's ability to compete with Lexmark in the relevant markets, thus preserving Lexmark' s dominant and monopoly position in the relevant markets.

57. Lexmark has misused the copyrights at issue in this action and has used them in violation of the antitrust laws as to render them unenforceable. Lexmark also has imposed restrictions on the use of its purportedly copyrighted material at issue in this case that anticompetitively extend the scope of those copyrights in violation of the antitrust laws.

58. On information and belief, there is a close link between the downward price pressure on Lexmark's laser printers and Lexmark's need to increase its revenue and profit growth from its supplies business. Lexmark considers its toner cartridge supply business to be critical to its profitability. Lexmark has issued press releases describing its supplies-driven business model, which emphasizes the profitability of Lexmark's toner cartridges sales. Lexmark has recently reported that its supplies revenue for the 2003 third quarter increased 13% from the same period in 2002. Consequently, on information and belief, Lexmark considers the remanufacturing of Lexmark printer toner cartridges by third parties to be a significant threat to Lexmark's revenue, profit growth, and monopolization of the relevant markets.

59. On information and belief, Lexmark has acted with the intent to restrain and monopolize the relevant markets to ensure that Lexmark will obtain artificially inflated monopolistic profits from Lexmark's new and remanufactured printer toner cartridge sales.

FIRST CLAIM FOR RELIEF

(Violation of Sherman Act § 1—Restraint of Interstate Commerce)

60. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 59 above.

61. Lexmark has engaged in an unlawful contract, combination or conspiracy to unreasonably restrain interstate commerce in the relevant markets in the United States in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1.

62. Lexmark's aforesaid unlawful combination and conspiracy to restrain interstate commerce in the relevant markets has consisted, among other things, of Lexmark's conspiring to engage in the above alleged predatory and/or anticompetitive conduct for the purpose of restraining interstate commerce.

63. Lexmark's actions, as alleged above, have unlawfully injured competition and business activities in interstate commerce.

64. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of Section 1 of the Sherman Act,

15 U.S.C. § 1, and Lexmark intended to restrain interstate commerce.

65. Lexmark's actions intentionally have had these adverse effects, among others, on the relevant markets: (a) reduced output within the relevant markets and (b) increased prices of products within the relevant markets.

66. Lexmark's actions, as alleged above, have proximately caused injury to SCC by diverting sales from SCC to Lexmark and inhibiting SCC from effectively competing in the relevant markets. As a result, SCC has suffered damages to its business or property by Lexmark in an amount to be established at trial in excess of $18 million, exclusive of costs and interest.

67. SCC is entitled to an award of damages, including an amount up to three times the amount found as actual damages, reasonable attorneys' fees, and costs, under Section 4 of the Clayton Act, 15 U.S.C. § 15.

68. SCC will continue to suffer damages as a result of the unlawful actions of Lexmark unless Lexmark, its officers, agents, servants, employees, attorneys, and those persons acting in concert with Lexmark are permanently enjoined from continuing such anticompetitive actions.

SECOND CLAIM FOR RELIEF

(Violation of Sherman Act § 2—Conspiracy to Monopolize, Attempted Monopolization, and Monopolization)

69. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 68 above.

70. Lexmark has conspired with its microchips suppliers and other brand name computer equipment manufacturers to monopolize the relevant markets in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

71. Lexmark's aforesaid conspiracy to monopolize the relevant markets has consisted of, among other things, Lexmark's conspiring to engage in the above alleged predatory and/or anticompetitive conduct in furtherance of its conspiracy to monopolize the relevant markets.

72. On information and belief, Lexmark willfully engaged in conspiratorial actions, as alleged above, which constitute violations of Section 2 of the Sherman Act, 15 U.S.C. § 2, and Lexmark specifically intended to monopolize the relevant markets.

73. Lexmark has individually attempted to monopolize the relevant markets in the United States in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

74. Lexmark's activities are anticompetitive and predatory and were undertaken with the specific intent to inhibit competition, exclude competitors, control

prices, and create and maintain Lexmark's monopoly in the relevant markets.

75. There is a dangerous probability that Lexmark will succeed in its attempt to monopolize or maintain its monopolies in the relevant markets.

76. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of Section 2 of the Sherman Act, 15 U.S.C. § 2, and specifically intended to monopolize the relevant markets.

77. In addition, Lexmark has monopolized the relevant markets in the United States in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

78. Lexmark's aforesaid monopolization of the relevant markets has consisted of Lexmark obtaining and maintaining monopoly power with, on information and belief, approximately an 85% share of each relevant market.

79. Lexmark's actions, as alleged above, have unlawfully injured competition and business activities in interstate commerce.

80. Lexmark's concerted actions with its co-conspirators and Lexmark's unilateral actions in violation of Section 2 of the Sherman Act, as alleged above, have proximately caused injury to SCC by diverting sales from SCC to Lexmark and inhibiting SCC from effectively competing in the relevant markets. As a result, SCC has suffered damages caused

by Lexmark to its business and property in an amount that is estimated to be at least $18 million.

81. Lexmark's concerted actions with its co-conspirators and Lexmark's unilateral actions in violation of Section 2 of the Sherman Act, as alleged above, have resulted in excluding competitors from the relevant markets and increasing prices to consumers in the relevant markets.

82. SCC is entitled to an award of damages, including an amount up to three times the amount found as actual damages, attorneys' fees and costs, under 15 U.S.C. § 15.

83. SCC will continue to suffer damages as a result of the unlawful actions of Lexmark unless Lexmark, its officers, agents, servants, employees, attorneys, and those persons acting in concert with Lexmark are permanently enjoined from continuing such actions.

THIRD CLAIM FOR RELIEF

(Violation of Lanham Act § 43(a)—False Advertising, Product Libel, and Unfair Competition)

84. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 83 above.

85. The communications regarding Lexmark's alleged intellectual property rights and Lexmark's alleged unlawful conduct, as alleged above, constitute material misrepresentations and/or omissions of the

nature, characteristics, and qualities of Lexmark's and SCC's goods, services and/or commercial activities, and are thus in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). Lexmark's misrepresentations and omissions were made willfully and in bad faith in commercial advertising and promotion.

86. Lexmark made misrepresentations and omissions about its own products and SCC's competing products. All these products are marketed and sold in interstate commerce, and in commerce between the United States and foreign countries.

87. Lexmark's misrepresentations and omissions concerning Lexmark's and SCC's products have deceived and are likely to deceive a substantial segment of the intended audience.

88. Lexmark's misrepresentations are material and likely to influence purchasing decisions in the relevant markets. Such misrepresentations have proximately caused and are likely to cause injury to SCC by diverting sales from SCC to Lexmark. Such conduct has also irreparably harmed SCC by leading consumers and others in the trade to believe that SCC is engaged in illegal conduct and is a dishonest and disreputable business. Lexmark's illegal conduct has substantially injured SCC's business reputation.

89. SCC is entitled to an award of damages, including an amount up to three times the amount found as actual damages, attorneys' fees and costs, under 15 U.S.C. § 1117(a).

90. SCC will continue to suffer damages as a result of the unlawful actions of Lexmark unless Lexmark, its officers, agents, servants, employees, attorneys, and those persons acting in concert with Lexmark are permanently enjoined from continuing such actions and appropriate corrective advertising is awarded.

FOURTH CLAIM FOR RELIEF

(Violation of N.C. Gen. Stat. § 75-1—Restraint of North Carolina Commerce)

91. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 90 above.

92. Lexmark has engaged in an unlawful contract, combination or conspiracy to unreasonably restrain commerce in the relevant markets in North Carolina in violation of N.C. Gen. Stat. § 75-1.

93. Lexmark's aforesaid unlawful combination and conspiracy to restrain commerce in the relevant markets in North Carolina has consisted of, among other things, Lexmark's conspiring to engage in the above alleged predatory andor anticompetitive conduct for the purpose of restraining commerce.

94. Lexmark's actions, as alleged above, have injured competition and adversely affected commerce and business activities within North Carolina.

95. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-1, and

Lexmark intended to restrain commerce within North Carolina.

96. Lexmark's actions have had the following adverse effects, among others, on the relevant markets in North Carolina: (a) reduced output within the relevant markets and (b) increased prices of products within the relevant markets.

97. Lexmark's actions, as alleged above, have proximately caused injury to SCC by diverting sales from SCC to Lexmark and inhibiting SCC from effectively competing in the relevant markets. As a result, SCC has suffered damages caused by Lexmark to its business or property in an amount to be established at trial in excess of $75,000 exclusive of costs and interest.

98. SCC is entitled to an award of damages, including an amount up to three times the amount found as actual damages, reasonable attorneys' fees and costs, under N.C. Gen. Stat. §§ 75-16 and 75-16.1.

99. SCC will continue to suffer damages as a result of the unlawful actions of Lexmark unless Lexmark, its officers, agents, servants, employees, attorneys, and those persons acting in concert with Lexmark are permanently enjoined from continuing such anticompetitive actions.

FIFTH CLAIM FOR RELIEF

(Violation of N.C. Gen. Stat. § 75-1.1—Unfair and Deceptive Trade Practices)

100. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 99 above.

101. Lexmark has engaged in acts or practices that affect commerce and business activities in the state of North Carolina.

102. Lexmark's anticompetitive and predatory actions, as alleged above, constitute unfair and deceptive acts or practices in violation of N.C. Gen. Stat. § 75-1.1.

103. Lexmark willfully engaged in the acts or practices, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-1.1.

104. Lexmark's unfair and deceptive acts have caused SCC to suffer damages in an amount to be established at trial in excess of $75,000 exclusive of costs and interest.

105. SCC is entitled to recover treble damages for injuries caused by the aforesaid conduct, as well as attorneys' fees and costs of suit for Lexmark's willful conduct, under N.C. Gen. Stat. §§ 75-16 and 75-16.1.

106. Lexmark's actions are ongoing and, unless enjoined, will continue to cause irreparable harm to SCC.

SIXTH CLAIM FOR RELIEF

(Violation of N.C. Gen. Stat. § 75-2.1—Conspiracy to Monopolize, Attempted Monopolization, Monopolization)

107. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 106 above.

108. Lexmark has conspired to monopolize the relevant markets in North Carolina in violation of N.C. Gen. Stat. § 75-2.1.

109. Lexmark's aforesaid conspiracy to monopolize the relevant markets has consisted of, among other things, Lexmark's conspiring to engage in the above alleged predatory and/or anticompetitive conduct for the purpose of monopolizing the relevant markets in North Carolina.

110. On information and belief, Lexmark willfully engaged in the concerted actions, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-2.1, and Lexmark specifically intended to monopolize the relevant markets within North Carolina.

111. Lexmark, in addition to acting in concert with its co-conspirators as alleged above, has individually attempted to monopolize the relevant markets within North Carolina in violation of N.C. Gen. Stat. § 75-2.1.

112. Lexmark's aforesaid attempt to monopolize the relevant markets in North Carolina has consisted of, among other things, Lexmark engaging in the above alleged predatory and/or anticompetitive conduct to

acquire monopoly power in the relevant markets within North Carolina.

113. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-2.1, and specifically intended to monopolize the relevant markets within North Carolina.

114. There is a dangerous probability that Lexmark will succeed in its attempt to monopolize or maintain its monopolies in the relevant markets within North Carolina.

115. In addition, Lexmark has individually monopolized the relevant markets within North Carolina in violation of N.C. Gen. Stat. § 75-2.1.

116. Lexmark's aforesaid monopolization of the relevant markets has consisted of Lexmark obtaining and maintaining monopoly power with, on information and belief, approximately an 85% share of each relevant market within North Carolina.

117. On information and belief, Lexmark willfully engaged in the actions, as alleged above, which constitute violations of N.C. Gen. Stat. § 75-2.1. Lexmark also intended to monopolize the relevant markets within North Carolina.

118. Lexmark's actions, as alleged above, have injured competition and adversely affected commerce and business activities within North Carolina.

119. Lexmark's concerted actions with its co-conspirators and Lexmark's unilateral actions in violation of N.C. Gen. Stat. § 75-2.1, as alleged above, have proximately caused injury to SCC by diverting sales from SCC to Lexmark and inhibiting SCC from effectively competing in the relevant markets within North Carolina. As a result, SCC has suffered damages in an amount to be established at trial in excess of $75,000 exclusive of costs and interest.

120. Lexmark's concerted actions with its co-conspirators and Lexmark's unilateral actions in violation of N.C. Gen. Stat. § 75-2.1, as alleged above, have resulted in excluding competitors from the relevant markets and increasing prices to consumers in the relevant markets within North Carolina.

121. SCC is entitled to recover treble damages for injuries caused by the aforesaid conduct, as well as attorneys' fees and costs of suit for Lexmark's willful conduct, under N.C. Gen. Stat. §§ 75-16 and 75-16.1.

122. Moreover, Lexmark's actions are ongoing and, unless enjoined, will continue to cause irreparable harm to SCC.

SEVENTH CLAIM FOR RELIEF

(Civil Conspiracy)

123. SCC realleges and incorporates by reference the allegations in Paragraphs 1 through 122 above.

124. Lexmark conspired, as alleged above, to commit unlawful acts, or to do lawful acts in an unlawful way.

125. Lexmark and/or one of its co-conspirators, in furtherance of their illegal conspiracy, committed an overt act in furtherance of the aims of their conspiracy.

126. SCC has suffered actual injury as a proximate result of the overt acts committed by Lexmark and/or one of its co-conspirators in furtherance of their conspiracy.

127. SCC is entitled to recover damages, costs, attorneys' fees, and expenses necessary to counteract the effects of Lexmark's illegal civil conspiracy.

JURY DEMAND

128. SCC demands a jury trial of all matters so triable raised in this Complaint.

PRAYER FOR RELIEF

WHEREFORE, SCC prays the Court to enter a judgment:

1. That SCC recover damages from Lexmark in an amount to be determined at trial in excess of $18 million for Lexmark's violation of Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2;

2. That SCC recover enhanced damages for as well as an enhanced accounting of Lexmark's unjust enrichment profits in an amount not less than $75,000

for Lexmark's violations of the Lanham Act under 15 U.S.C. § 1125(a);

3. That Lexmark be permanently enjoined from violating the Lanham Act and be required to make and disseminate corrective advertising to remedy its Lanham Act violations against SCC in a form and frequency acceptable to SCC and the Court;

4. That Lexmark be ordered to give a report in writing, under oath, stating that Lexmark has complied with the Court's injunction and describing the steps taken to comply with the Court's injunction;

5. That SCC recover damages from Lexmark on SCC's claims under North Carolina law in an amount to be established at trial in excess of $75,000, plus interest as allowed by law;

6. That SCC recover Lexmark's unjust enrichment profits in an amount not less than $75,000 for Lexmark's violations of North Carolina law;

7. That said recovery be trebled, where applicable, under 15 U.S.C. § 15, 15 U.S.C. § 1117(a), and/or N.C. Gen. Stat. § 75-16;

8. That the Court enjoin Lexmark from enforcing its patents, copyrights, and the related Prebate restrictions against its customers and end-users, SCC, and SCC's customers.

9. That the Court award SCC its reasonable attorneys' fees and costs and prejudgment and post

judgment interest under 15 U.S.C. § 15; 15 U.S.C. § 1117(a); and/or N.C. Gen. Stat. § 75-16.1

10. That a trial by jury be had on all issues so triable; and

11. For such other and further relief as the Court may deem just and proper.

Dated December 4, 2003

Respectfully submitted,

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
CENTRAL DIVISION
LEXINGTON

CONSOLIDATED CIVIL ACTION NOS.
5:02-571 AND 5:04-84
[Filed June 1, 2007]

STATIC CONTROL COMPONENTS, INC.,	)
Plaintiff/Counterclaim Defendant,	)
V.	)
LEXMARK INTERNATIONAL, INC.,	)
Defendant/Counterclaim Plaintiff	)

ORDER

*** *** *** ***

Static Control Components, Inc's ("SCC") Motion for Reconsideration of the Court's Order Dismissing SCC's Claims or, In the Alternative, to Amend Its Pleading is before the Court for consideration. [R. 407]. For the reasons set forth below, SCC's motion will be denied.[1]

[1] This denial is consistent with the notice that the Court gave to SCC at trial prior to opening arguments that the Court had

I.

BACKGROUND

For contextual purposes, the factual background of this case may be found, *e.g.*, at Record No. 1081 but need not be repeated here. In its current Motion, SCC invites the Court to reconsider its Order dismissing SCC's antitrust, Lanham Act, and state law claims upon finding that SCC lacked the prudential standing necessary to maintain those claims. [R. 392].

II.

DISCUSSION

A. Standard of Review

Motions to reconsider fall within the framework of Federal Rule of Civil Procedure 59 and may be justified upon three circumstances, namely when: "1) there has been as intervening change in the controlling law, 2) there is new evidence which has become available, and 3) there is a need to correct clear legal error or to prevent manifest injustice." *Gesler v. Ford Motor Co.*, 185 F. Supp.2d 724, 729 (W.D. Ky. 2001) (citing *Plaskon Elec. Materials v. Allied Signal*, 904 F. Supp. 644, 669 (N.D. Ohio 1995)). SCC currently argues the third basis—correction of legal error—as grounds for its Motion. Generally, however, motions to reconsider are "extraordinary in nature," "discouraged," and are

---

considered SCC's motion and that it would be denied, pending this instant opinion and order.

granted "very sparingly," because the motions "'run contrary to notions of finality and repose.'" *Plaskon Elec. Materials*, 904 F. Supp. at 669 (citations omitted). Courts consistently emphasize that a motion to reconsider is not a vehicle for a party to merely reargue or rehash its position after an unfavorable ruling. *See, e.g., Gesler*, 185 F. Supp.2d at 729 (citation omitted); *Frederick v. Southeastern Pa. Transp. Auth.*, 926 F. Supp. 63, 64 (E.D. Pa. 1996); *All W. Pet Supply Co. v. Hill's Pet Prods. Div.*, 847 F. Supp. 858, 860 (D. Kan. 1994) (citing *National Metal Finishing Co., Inc. v. Barclays American/Commercial, Inc.*, 899 F.2d 119, 123 (1st Cir. 1990)).

Regarding the standard of review for motions for leave to amend a complaint, leave to amend a pleading shall be "freely given when justice so requires." Fed. R. Civ. P. 15(a). However, the grant or denial of a motion to amend is within the sound discretion of the Court. *General Elec. Co. v. Sargent & Lundy*, 916 F.2d 1119, 1130 (6th Cir. 1990). Specifically, a district court should consider the following factors in deciding on a plaintiff's motion to amend the complaint: (1) undue delay in filing the motion; (2) lack of notice to adverse parties; (3) whether the movant is acting in bad faith, or with a dilatory motive; (4) failure to cure deficiencies by previous amendments; (5) the possibility of undue prejudice to adverse parties; and (6) whether the amendment is futile. *Foman v. Davis*, 371 U.S. 178, 182 (1962); *Robinson v. Michigan Consol. Gas Co.*, 918 F.2d 579, 591 (6th Cir. 1990).

B. Analysis

SCC's own Counterclaim, and tendered amended Counterclaim, demonstrates in a selfcontained manner that SCC lacks antitrust standing. Taking various exemplar SCC arguments in turn, it is evident to the Court that SCC is merely attempting to reargue the merits of this closed issue and that the Court committed no "clear legal error" in this matter. Mere disagreement with the Court's previous conclusion is not a basis for seeking reconsideration.

First, SCC argues that "the Court incorrectly required SCC to provide *evidence* in opposing Lexmark's Rule 12(b)(6) motion so that the Court could determine the sufficiency of SCC's *allegations* . . . ." [R. 407 at 13 (emphasis in original)]. SCC thereafter quotes the Court: "'No evidence suggests that SCC was utilized by Lexmark as a conduit or market force to injure the remanufacturers of Lexmark's cartridges.'" *Id.* (quoting the Court, R. 392 at 10). This argument demonstrates the tenuous nature of SCC's Motion. The only error the Court made here, if any, is using the word "evidence" in a colloquial sense. A fair reading of the Court's Order demonstrates that the Court relied on SCC's own factual allegations throughout. Predominantly, the Court accepted as true that Lexmark has indeed caused injury in fact to SCC with regard to Lexmark's Prebate program, and SCC's parsing of individual words for supposed error belies the need for reconsideration.

Next, SCC attempts to reargue an antitrust injury by overlying the Court's analysis of antitrust standing with regard to Lexmark's Prebate program in general

with the Court's disposition of the issues with regard to microchips specifically. [R. 392 at 7-8]. The Court is well aware that it is no defense to antitrust suit to argue that the antitrust violator created the restrained market in the first place. Therefore, the fact that Lexmark created the cartridges that are the subject of this suit is not a defense on the merits to antitrust. However, with regard to microchips, SCC alleges not merely that Lexmark created a microchip market, but that the very existence of these chips, incorporated into Prebate cartridges, is "anticompetitive." [*See* R. 392 at 3]. Therefore, with regard to these microchips, substitutes for which SCC sells, SCC has no antitrust injury, because it is profiting from Lexmark's alleged *antitrust activity*. "[I]n order to survive a motion to dismiss for failure to allege antitrust injury, a plaintiff must allege *either*: (1) that the antitrust violation was 'a necessary predicate' to their injury; *or* (2) that the defendant could injure plaintiffs only by engaging in the antitrust violation." *In re Cardizem CD Antitrust Litigation*, 332 F.3d 896, 912 (6th Cir. 2003) (emphasis in original) (citing *Hodges v. WSM, Inc.*, 26 F.3d 36, 39 (6th Cir. 1994)). In the current case, with regard to the microchips, SCC turns *In re Cardizem* on its head, because rather than the antitrust violation being a necessary predicate to SCC's *injury*, the antitrust violation, pursuant to SCC's allegations, is a necessary predicate of SCC's *profit*.

SCC also argues that the Court committed reversible clear error by not considering one of the five factors under *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983). [R. 407 at 1]. That factor is "the potential for duplicative recovery or

complex apportionment of damages." *Southhaven Land Co., Inc. v. Malone & Hyde, Inc.*, 715 F.2d 1079, 1083, 1085 (6th Cir. 1983). SCC incorrectly suggests that the Court must fruitlessly go through the motions of addressing this factor. *Associated General* merely sets forth a balancing test, the factors of which were later enumerated with precision by the Sixth Circuit. *Id.* The Court was not unaware of factor four, but other factors weigh so heavily in Lexmark's favor that factor four in no event could tip the balance in SCC's favor. The factor is at best a wash.

Finally, SCC's proposed amended Counterclaim does no better of alleging facts that would demonstrate that SCC has antitrust standing in this matter and is accordingly futile. Simply stating, *inter alia*, "Lexmark targeted SCC specifically" as an afterthought in light of the Court's Order of dismissal is insufficient in light of SCC's other allegations, and Lexmark's citation on this point is well taken. R. 422 at 10; *Peck v. General Motors Corp.*, 894 F.2d 844, 846-47 (6th Cir. 1990). The Court will also deny SCC's request to amend as futile.

II.

CONCLUSION

For the reasons set forth herein, it is hereby **ORDERED** that SCC's Motion for Reconsideration of the Court's Order Dismissing SCC's Claims or, In the Alternative, to Amend Its Pleading [R. 407] is **DENIED**.

This the 1st day of June, 2007.

Signed By:
Gregory F. Van Tatenhove
United States District Judge

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
CENTRAL DIVISION
LEXINGTON

CIVIL MINUTES-TRIAL

CASE NO. 5:04-cv-M-GFVT AT: Frankfort

DATE: June 19, 2007

STYLE:
LEXMARK INTERNATIONAL,. INC.. v. STATIC CONTROL COMPONENTS. ET AL.

DOCKET ENTRY: Lexmark's Motion for Judgment as a Matter of Law regarding the Statute of Limitations [R. 12971 is GRANTED IN PART AND DENIED IN PART, as set forth in the record. For reasons stated on the record, Static Control Component's Motion for Summary Judgment [R. 1251] and Motions to amend Pleadings to Add Fraud Claim and Reinstate Counterclaims [R. 1317 and 1318] are DENIED. Static Control Components Motion to Exclude evidence, Argument & Jury Instruction re "good faith" patent misuse rebuttal [R. 1351] is DENIED IN PART and TAKEN UNDER ADVISEMENT in part. The Motion is denied to mark may present evidence in its rebuttal case regarding good faith.

PRESENT:

HON. s/ Gregory F. Van Tatenhove , JUDGE
GREGORY F. VAN TATENHOVE

M. Younce
Deputy Clerk

Rhonda Sansom
Court Reporter

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PROCEEDINGS: JURY TRIAL

____ COURT TRIAL ___X___ JURY TRIAL

The jury present as follows.

(1) Juror No. 114	(5) Juror No.	(9) Juror No. 126
(2) Juror No. 124	(6) Juror No. 86	(10) Juror No. 127
(3) Juror No. 58	(7) Juror No. 87	
(4) Juror No. 145	(8) Juror No. 120	

__X__ Introduction of evidence for defendant resumed and concluded.

__X__ Rebuttal evidence began but not concluded.
___ Sur-rebuttal evidence

__X__ Continued to Wednesday, June 20, 2007, at the hour of 8:30 A.M. for further trial.

____ Jury retires to deliberate at _____;
Jury returns at _____.

___ JUDGMENT BY COURT ____JURY VERDICT.
SEE VERDICT OR ANSWERS TO INTERROGATORIES.

____ Jury polled.

___ Proposed Findings of Fact, Conclusions of Law & Judgment to be prepared by ____ plaintiff

____ defendant.

____ BRIEFS to be filed

_____	_____	_____
Plaintiff	Defendant	Reply

within _____ days following the filing of the transcript.

This the 19th day of June, 2007.

cc: COR
TIC: 6/20 Initials of Deputy Clerk MJY

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
CENTRAL DIVISION
LEXINGTON

CONSOLIDATED CIVIL ACTION NOS. 5:02-571 AND 5:04-84

[Filed October 27, 2009]

STATIC CONTROL COMPONENTS, INC.,	)
Plaintiff/Counterclaim Defendant,	)
V.	)
LEXMARK INTERNATIONAL, INC.,	)
Defendant/Counterclaim Plaintiff.	)

AMENDED FINAL JUDGMENT

*** *** *** ***

These consolidated civil actions came on for trial before the Court and a jury, Honorable Gregory F. Van Tatenhove, District Judge, presiding. Further, certain other issues in these consolidated civil actions were decided by the Court, as a matter of law.

It is **ORDERED AND ADJUDGED** that:

LEXMARK'S CLAIMS IN ITS COMPLAINT IN THE 02-CV-571-GFVT ACTION

(1) On Count I (Copyright Infringement) of Lexmark's Complaint in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count I be dismissed on the merits. [R. 975];

(2) On Count II (DMCA Violations Relating to Lexmark's Toner Loading Programs) of Lexmark's Complaint in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count II be dismissed on the merits. [R. 216]; and

(3) On Count III (DMCA Violations Relating to Lexmark's Printer Engine Programs) of Lexmark's Complaint in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count III be dismissed on the merits. [R. 216.]

STATIC CONTROL'S COUNTERCLAIMS IN THE 02-CV-571-GFVT ACTION

(4) On the First Claim for Relief (Violation of Sherman Act § 1 – Restraint of Interstate Commerce) of Static Control's Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the First Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(5) On the Second Claim for Relief (Violation of Sherman Act § 2 – Conspiracy to Monopolize, Attempted Monopolization, and Monopolization) of Static Control's Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that

the Second Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(6) On the Third Claim for Relief (Violation of Lanham Act § 43(A) – False Advertising, Product Libel, and Unfair Competition) of Static Control's Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the Third Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(7) On the Fourth Claim for Relief (Violation of N.C. Gen. Stat. § 75-1 – Restraint of North Carolina Commerce) of Static Control's Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the Fourth Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(8) On the Fifth Claim for Relief (Violation of N.C. Gen. Stat. § 75-1.1 – Unfair and Deceptive Trade Practices) of Static Control's Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the Fifth Claim for Relief be dismissed on the merits. [R. 392 & 1259];

(9) On the Sixth Claim for Relief (Violation of N.C. Gen. Stat. § 75-2.1 – Conspiracy to Monopolize, Attempted Monopolization, Monopolization) of Static Control's Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover nothing, and that the Sixth Claim for Relief be dismissed on the merits. [R. 392 & 1259]; and

(10) On the Seventh Claim for Relief (Civil Conspiracy) of Static Control's Counterclaims in Case No. 02-CV-571-GFVT, Static Control shall recover

nothing, and that the Seventh Claim for Relief be dismissed on the merits. [R. 392 & 1259.]

LEXMARK'S CLAIMS IN ITS AMENDED REPLY AND COUNTERCLAIMS IN THE 02-CV-571-GFVT ACTION

(11) On Count I (DMCA Violations Relating to PEP for Optra Se and T Series Printers) of Lexmark's Amended Reply and Counterclaims in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count I be dismissed on the merits. [R. 216];

(12) On Count V (Interference with Contractual Relations) of Lexmark's Amended Reply and Counterclaims in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count V be dismissed on the merits. [R. 1020];

(13) On Count VI (Interference with Prospective Economic Advantage) of Lexmark's Amended Reply and Counterclaims in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count VI be dismissed on the merits. [R. 1020]; and

(14) On Count VII (Civil Conspiracy) of Lexmark's Amended Reply and Counterclaims in Case No. 02-CV-571-GFVT, Lexmark shall recover nothing, and that Count VII be dismissed on the merits. [R. 1020.]

STATIC CONTROL'S CLAIMS IN ITS COMPLAINT IN THE 04-CV-84-GFVT ACTION

(15) Count I (Declaratory Judgment of Non-Infringement of Copyright) of Static Control's

Complaint in Case No. 04-CV-84-GFVT is adjudged in favor of Static Control, and this Court declares that the computer software code on Static Control's reengineered replacement microchips for use with Lexmark's T420, T520/522, T620/622, T630/632/634, E320/322, E321/323, E220, Optra Se, Optra T610, Optra T612, Optra T614, and Optra T616, sold after February 24, 2004, does not infringe any Lexmark copyright. [R. 1061];

(16) Count II (Declaratory Judgment of No Violation of 17 U.S.C. § 1201(a)(2)) of Static Control's Complaint in Case No. 04-CV-84-GFVT is adjudged in favor of Static Control, and this Court declares that Static Control's manufacture, distribution, and sale of its microchips for use with Lexmark's T420, T520/522, T620/622, T630/632/634, E320/322, E321/323, E220, Optra Se, Optra T610, Optra T612, Optra T614, and Optra T616 printers do not violate 17 U.S.C. § 1201(a)(2) of the DMCA. [R. 216]; and

(17) Count III (Declaratory Judgment of No Violation of 17 U.S.C. § 1201(a)(2)) of Static Control's Complaint in Case No. 04-CV-84-GFVT is hereby dismissed without prejudice as moot.

LEXMARK'S COUNTERCLAIMS IN THE 04-CV-84-GFVT ACTION

(18) On Count I (Static Control's DMCA Violations relating to Lexmark's Printer Engine Programs) of Lexmark's Counterclaims in Case No. 04-CV-84-GFVT, Lexmark shall recover nothing, and that Count I be dismissed on the merits. [R. 216];

(19) On Count II (Static Control's Patent Infringement) of Lexmark's Counterclaims in Case No. 04-CV-84-GFVT, Lexmark shall recover nothing, and that Count II be dismissed on the merits [R. 1012, 1366, 1443, & 1448], except solely with regard to Lexmark's claim in Paragraph 91 of Count II against Static Control for direct infringement of Lexmark's U.S. Patent No. 6,397,015, said claim being adjudged in favor of Lexmark [R. 1362 & 1376 (6/20/07 Trial Transcript, p. A-20, line 3-4)], but with no remedy being entered on said claim. [R. 1012, 1430, & 1448];

(20) On Count V (Interference with Contractual Relations) of Lexmark's Counterclaims in Case No. 04-CV-84-GFVT, Lexmark shall recover nothing, and that Count V be dismissed on the merits. [R. 1020];

(21) On Count VI (Interference with Prospective Economic Advantage) of Lexmark's Counterclaims in Case No. 04-CV-84-GFVT, Lexmark shall recover nothing, and that Count VI be dismissed on the merits. [R. 1020]; and

(22) On Count VII (Civil Conspiracy) of Lexmark's Counterclaims in Case No. 04- CV-84-GFVT, Lexmark shall recover nothing, and that Count VII be dismissed on the merits. [R. 1020.]

OTHER MATTERS

(23) All pending motions in these consolidated actions not previously disposed of are hereby denied as moot.

(24) The Court's prior rulings and orders (including but not limited to rulings and orders on motions for summary judgment and motions for judgment as a matter of law) in these consolidated actions are merged herein, including but not limited to prior rulings and orders (including but not limited to rulings and orders on motions for summary judgment and motions for judgment as a matter of law) that dispose of claims and counterclaims asserted by and against Wazana Brothers International, Inc., d/b/a Micro Solutions Enterprises, Pendl Companies, Inc., Image Productions West, Inc., and/or NER Data Products, Inc.

(25) By tendering a proposed judgment, neither Lexmark nor Static Control waives any appeal or other rights, and all such rights, including but not limited to the right to appeal from this judgment and appeal rights previously preserved by prior stipulations, are expressly preserved.

(26) All claims in these consolidated actions not otherwise expressly disposed of by this or prior orders or rulings (including but not limited to rulings and orders on motions for summary judgment and motions for judgment as a matter of law) merged herein are hereby dismissed on the merits.

(27) Judgment is **ENTERED** with respect to all issues raised herein.

(28) This is a **FINAL** and **APPEALABLE** Judgment and there is no just cause for delay.

(29) This matter is **STRICKEN** from the Court's active docket.

(30) The parties will submit any motions for bills of costs and attorneys' fees, including under 17 U.S.C. § 505, within thirty (30) days of entry of this Judgment. The parties are reminded that, in the Sixth Circuit, the language of Federal Rule of Civil Procedure 54(d) "creates a presumption in favor of awarding costs [to the prevailing party], but allows denial of costs at the discretion of the trial court." *White & White, Inc. v. American Hospital Supply Corp.*, 786 F.2d 728, 730 (6 Cir. 1986). Where cases are "close and difficult," the denial of costs "is a proper exercise of discretion under the rule." *Id.* And "[t]he closeness of a case is judged not by whether one party clearly prevails over another, but by the refinement of perception required to recognize, sift through and organize relevant evidence, and by the difficulty of discerning the law of the case." *Id.* at 732-33. The parties are further reminded that "attorney's fees are not ordinarily recoverable in the absence of a statute or enforceable contract providing therefor." *Incarcerated Men of Allen County Jail v. Fair*, 507 F.2d 281, 284 (6th Cir. 1974).

This the 27th day of October, 2009.

Signed By:
s/Gregory F. Van Tatenhove
United States District Judge

PETITIONER'S BRIEF

No. 12-873

In the Supreme Court of the United States

LEXMARK INTERNATIONAL, INC.,
Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

PETITIONER'S BRIEF ON THE MERITS

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August 15, 2013

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QUESTION PRESENTED

Whether the appropriate analytic framework for determining a party's standing to maintain an action for false advertising under the Lanham Act is (1) the test set forth in *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983), as adopted by the Third, Fifth, and Eleventh Circuits; (2) the categorical test, permitting suits only by an actual competitor, employed by the Seventh, Ninth, and Tenth Circuits; or (3) the more expansive "reasonable interest" test, either as applied by the Sixth Circuit in this case or as applied by the First and Second Circuits in prior cases.

PARTIES TO THE PROCEEDINGS

The following were parties to the proceedings in the United States Court of Appeals for the Sixth Circuit:

1. Lexmark International, Inc., the petitioner on review, was the appellee and cross-appellant below.

2. Static Control Components, Inc., the respondent on review, was the appellant and cross-appellee below.

RULE 29.6 DISCLOSURE STATEMENT

Lexmark International, Inc. has no parent corporation, and there are no publicly held corporations that own 10% or more of its stock. Lexmark International, Inc. is a publicly traded corporation.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

PARTIES TO THE PROCEEDINGS ii

RULE 29.6 DISCLOSURE STATEMENT iii

TABLE OF AUTHORITIES vi

OPINIONS BELOW 1

JURISDICTION 1

STATUTE INVOLVED 1

INTRODUCTION 2

STATEMENT OF THE CASE 5

SUMMARY OF ARGUMENT 11

ARGUMENT 13

I. THE LANHAM ACT INCORPORATES PRUDENTIAL STANDING LIMITATIONS 13

II. THE *AGC* TEST IS THE BEST FRAMEWORK FOR ANALYZING STANDING UNDER THE LANHAM ACT 20

A. This Court Should Adopt The *AGC* Test 20

B. In The Alternative, This Court Should Adopt The Categorical "Competitor" Test 29

C. The "Reasonable Interest" Test Is Inconsistent With The Act's Text And Purpose And Provides No Guidance To Courts 30

III. RESPONDENT STATIC CONTROL LACKS PRUDENTIAL STANDING UNDER THE *AGC* TEST 36

CONCLUSION 42

TABLE OF AUTHORITIES

CASES

Am. Washboard Co. v. Saginaw Mfg. Co.,
103 F. 281 (6th Cir. 1900) 25

Ariz. Cartridge Remanufacturers Ass'n, Inc. v. Lexmark Int'l, Inc.,
421 F.3d 981 (9th Cir. 2005) 37

Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters,
459 U.S. 519 (1983) . . . . . *passim*

Barrus v. Sylvania,
55 F.3d 468 (9th Cir. 1995) 32

Bennett v. Spear,
520 U.S. 154 (1997) 14, 15, 16, 20, 24

Blue Shield of Va. v. McCready,
457 U.S. 465 (1982) 21

Cal. Apparel Creators v. Wieder of Cal., Inc.,
162 F.2d 893 (2d Cir.),
cert. denied, 332 U.S. 816 (1947) 17

Camel Hair & Cashmere Inst., Inc. v. Associated Dry Goods Corp.,
799 F.2d 6 (1st Cir. 1986) 30, 33

Colligan v. Activities Club of N.Y., Ltd.,
442 F.2d 686 (2d Cir. 1971) 19, 32

Conte Bros. Auto., Inc., v. Quaker State-Slick 50, Inc.,
165 F.3d 221 (3d Cir. 1998) ..... *passim*

Erie R.R. v. Tompkins,
304 U.S. 64 (1938) 16, 17, 24

Famous Horse, Inc. v. 5th Ave. Photo Inc.,
624 F.3d 106 (2d Cir. 2010) 31, 34

Gilbert/Robinson, Inc. v. Carrie Beverage-Mo., Inc.,
989 F.2d 985 (8th Cir. 1993) 27

Halicki v. United Artists Commc'ns, Inc.,
812 F.2d 1213 (9th Cir. 1987) 19, 29, 30, 35

Hawaii v. Standard Oil Co.,
405 U.S. 251 (1972) 34

ISI Int'l, Inc. v. Borden Ladner Gervais, LLP,
316 F.3d 731 (7th Cir. 2003) 38

Ill. Brick Co. v. Illinois,
431 U.S. 720 (1977) 26

Inwood Labs. v. Ives Labs.,
456 U.S. 844 (1982) 16

John Wright, Inc. v. Casper Corp.,
419 F. Supp. 292 (E.D. Pa.),
aff'd in part, rev'd in part,
587 F.2d 602 (3d Cir. 1978) 19

L.S. Heath & Son v. AT&T Info. Sys.,
9 F.3d 561 (7th Cir. 1993) 29, 32

Lujan v. Defenders of Wildlife,
504 U.S. 555 (1992) 14, 33, 34

Made in the USA Found. v. Phillips Foods, Inc.,
365 F.3d 278 (4th Cir. 2004) 32

Mosler Safe Co. v. Ely-Norris Safe Co.,
273 U.S. 132 (1927) 17, 25

Ortho Pharm. Corp. v. Cosprophar, Inc.,
32 F.3d 690 (2d Cir. 1994) 34

PPX Enters., Inc. v. Audiofidelity, Inc.,
746 F.2d 120 (2d Cir. 1984) 30

Phoenix of Broward, Inc. v. McDonald's Corp.,
489 F.3d 1156 (11th Cir. 2007) 27, 28, 32, 40

Procter & Gamble Co. v. Amway Corp.,
242 F.3d 539 (5th Cir. 2001) 27, 32

Quanta Computer, Inc. v. LG Electronics, Inc.,
553 U.S. 617 (2008) 37

Serbin v. Ziebart Int'l Corp.,
11 F.3d 1163 (3d Cir. 1993) 32

Shonac Corp. v. AMKO Int'l, Inc.,
763 F. Supp 919 (S.D. Ohio 1991) 15

Stanfield v. Osborne Indus., Inc.,
52 F.3d 867 (10th Cir. 1995) 29, 32, 36

Taniguchi v. Kan Pac. Saipan, Ltd.,
132 S. Ct. 1997 (2012) 29

United Food & Commercial Workers Union v. Brown Group Inc.,
517 U.S. 544 (1996) 14

Warth v. Seldin,
422 U.S. 490 (1975) 13

STATUTES

15 U.S.C. § 15 ..... 2, 20

15 U.S.C. § 1125(a)(1) ..... *passim*

15 U.S.C. § 1127 ..... *passim*

28 U.S.C. § 1254(1) 1

OTHER AUTHORITIES

Kevin M. Lemley, *Resolving the Circuit Split on Standing in False Advertising Claims and Incorporation of Prudential Standing in State Deceptive Trade Practices Law: The Quest for Optimal Levels of Accurate Information in the Marketplace*, 29 U. Ark. Little Rock L. Rev. 283 (2007) 26, 29, 35

5 McCarthy, *McCarthy on Trademarks and Unfair Competition*(4th ed. 2013) ..... *passim*

Restatement (Third) Unfair Competition 28

S. Rep. No. 100-515, 100th Cong., 2d Sess. (May 12, 1988), *reprinted in* 1988 U.S.C.C.A.N. 5577 . . . 18

S. Rep. No. 1333, 79th Cong., 2d Sess. (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274 . . 16, 17, 18

OPINIONS BELOW

The district court's order (Pet. App. 67-89) is unreported but available at 2006 U.S. Dist. LEXIS 73845 (E.D. Ky. Sept. 28, 2006). The Sixth Circuit's opinion and judgment (Pet. App. 1-66) is reported at 697 F.3d 387 (6th Cir. 2012). The Sixth Circuit's order denying rehearing en banc (Pet. App. 90-91) is unreported but available at 2012 U.S. App. LEXIS 23975 (6th Cir. Oct. 26, 2012).

JURISDICTION

A timely petition for writ of certiorari was filed on January 14, 2013. The petition was granted on June 3, 2013. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTE INVOLVED

15 U.S.C. § 1125(a)(1) provides:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—
>
> > (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her

> goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,
>
> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

INTRODUCTION

In *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983) ("*AGC*"), this Court considered who may maintain a private damages action under the federal antitrust laws. The relevant statute defined the universe of plaintiffs in very broad terms: "[A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws" could sue. 15 U.S.C. § 15. And yet this Court recognized that was not the end of the analysis, for the statute's "larger context" made it clear that Congress expected that antitrust litigation "would be subject to constraints comparable to well-accepted common-law rules applied in comparable litigation." *AGC*, 459 U.S. at 533. And the common law imposed strict prudential requirements on would-be plaintiffs. *Id.* at 532-33. This Court thus adopted a prudential standing test of its own. The *AGC* test considers (among other things) the plaintiff's proximity to the conduct complained of, the directness of the injury, and whether that injury is

"of a type that Congress sought to redress in providing a private remedy" for antitrust violations. *Id.* at 538.

The Court is now faced with the same question—who may sue?—in the context of a similar statutory provision. Section 43(a) of the Lanham Act codifies common law causes of action for certain anti-competitive conduct in commercial activities. The provision's text, like the one at issue in *AGC*, on its face suggests an extraordinarily broad universe of plaintiffs: "[A]ny person who believes that he or she is or is likely to be damaged" can recover from anyone who engages in false advertising or false association. 15 U.S.C. § 1125(a)(1). And yet as in *AGC*, courts have recognized that the language cannot be read in isolation; if it were, federal courts would be flooded with lawsuits from competitors, consumers, and other actors at each link of the commercial chain any time a business is accused of false advertising. The courts thus have done what this Court did in *AGC*: They have imposed prudential limitations on the statutory cause of action.

The question presented here is what prudential standing test should apply to the Lanham Act. This Court should adopt the *AGC* test as the Third Circuit, *see Conte Bros. Auto., Inc., v. Quaker State-Slick 50, Inc.*, 165 F.3d 221 (3d Cir. 1998) (Alito, J.), and two other circuits have previously done. As then-Judge Alito recognized in *Conte Brothers*, the *AGC* test maps nicely onto Section 43(a). Congress enacted Section 43(a) to "protect persons engaged in . . . commerce" against "unfair competition," 15 U.S.C. § 1127, and the *AGC* test ensures that Section 43(a) litigation is focused on such competitive injuries by asking whether

the injury complained of is "of a type that Congress sought to redress." 459 U.S. at 538. Moreover, the unfair competition common law codified in Section 43(a) required plaintiffs to have suffered direct, proximate injuries, and the *AGC* test includes inquiries on both points thereby ensuring that the proposed plaintiffs are the most appropriate parties to pursue the unfair competition claims (or whether there are other parties closer to the conduct that would be more appropriate plaintiffs). The test thus ensures that "the private remedy" Congress created is given "its intended scope." *Id.* at 532. With decades of experience in how the *AGC* test has been applied, the test offers concrete guidance to litigants and courts alike.

In the alternative, this Court could adopt the categorical test favored by three other circuits, under which only actual competitors may bring Section 43(a) false advertising lawsuits. That test has the virtue of providing a bright line for courts and litigants. And it hews closely to the Act's purpose of protecting against "unfair competition." 15 U.S.C. § 1127.

Whichever of these tests the Court chooses, it should reject the lax prudential standing test adopted by the Sixth Circuit below: That a plaintiff may sue under Section 43(a) if he has "a reasonable interest to be protected against the alleged false advertising" and "a reasonable basis for believing that the interest is likely to be damaged." Pet. App. 38. That test veers from the Lanham Act's purpose. It is insolubly vague and will sow disuniformity in the federal courts. And, worst of all, it is toothless as a prudential standing test because it sets the same bar as Article III standing; any plaintiff who has alleged injury and causation also

will have alleged a "reasonable interest." By failing to narrow the universe of plaintiffs, the Sixth Circuit's test is nothing more than a massively broad invitation to litigation, allowing practically anyone to sue any business for misrepresentation in federal court—with no amount-in-controversy requirement. That is not what Congress had in mind. The judgment of the Sixth Circuit should be reversed.

STATEMENT OF THE CASE

1. Lexmark manufactures laser printers and the toner cartridges required for its printers to operate. The primary printer market is highly competitive. Lexmark competes with other printer manufacturers such as Hewlett-Packard, Canon, and Xerox. Pet. App. 4-5.

The "aftermarket" for toner cartridges—that is to say, the buying and selling of cartridges that have run out of toner but can be used again—is also competitive, though in a different way. "Each [printer] company generally manufactures its printers to work with only its own style of cartridges, and each company's cartridges will work only with its brand of printers. Therefore, each company typically dominates the aftermarket for cartridges compatible with its brand of printers although the primary market for printers is well populated." *Id.* at 5. That does not mean, however, that there is no competition at all in the aftermarket. On the contrary, entities known as "remanufacturers" acquire used cartridges from Lexmark's customers, refill them, and sell them to owners of Lexmark printers. *Id.* at 3, 5.

Remanufacturers, in turn, obtain parts needed to refill cartridges from other companies. *Id.* at 5 & n.2.

That is where Respondent Static Control comes in. Static Control is not a remanufacturer; it does not remanufacture or sell cartridges itself. Rather, it makes the parts such as toner and microchips used to remanufacture cartridges. *Id.* at 7. Since Static Control sells only cartridge parts (and competes with other parts suppliers), and Lexmark does not sell cartridge parts at all but instead sells only complete cartridges, "Static Control and Lexmark are not actual competitors." *Id.* at 36.

2. Amid customer demand for more and cheaper remanufactured cartridges, Lexmark in 1997 announced what it called the "Prebate" program. Pet. App. 5. Under the program, customers who buy Lexmark cartridges marked "Prebate" receive a 20 percent up-front discount. In exchange, the customers agree to use each cartridge only once and to return it only to Lexmark for remanufacturing and recycling. *Id.* The Prebate program benefits Lexmark by providing a source of empty cartridges for Lexmark to remanufacture and allowing Lexmark to dispose of cartridges unsuitable for remanufacturing in an environmentally sensitive manner. (04RE1187, Trial Tr. 05/22/07, pp. 124-25).[1]

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[1] Lexmark abbreviates the record citations to the United States District Court for the Eastern District of Kentucky Civil Action Nos. 5:02-cv-00571 and 5:04-cv-00084 with the prefixes "02RE" and "04RE," respectfully. These two actions were consolidated on August 10, 2005. (04RE140, Opinion & Order, p. 9).

Notice of the Prebate terms and conditions appear in various places on the cartridge box, inside the cartridge box, and on the cartridge itself.[2] Pet. App. 5. Lexmark also offers regular cartridges not subject to the Prebate terms or the up-front discount. Those cartridges can be used more than once and disposed of or refilled as the customer sees fit. *Id.* at 6.

Except for the initial printer family that employed the Prebate program, a microchip is used on both Prebate and non-Prebate toner cartridges that interface with the printer once the cartridge is installed. (04RE1197, Trial Tr. 05/23/07, p. 25). This microchip enhances printer functioning. *Id.* The microchip on a Prebate cartridge also helps enforce the Prebate terms by disabling the cartridge after it has been used once. Pet. App. 6. To reuse a Prebate

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[2] A typical version of the license agreement reads as follows:

> RETURN EMPTY CARTRIDGE TO LEXMARK FOR REMANUFACTURING AND RECYCLING
>
> Please read before opening. Opening this package or using the patented cartridge inside confirms your acceptance of the following license agreement. This patented [Prebate] Program cartridge is sold at a special price subject to a restriction that it may be used only once. Following this initial use, you agree to return the empty cartridge only to Lexmark for remanufacturing and recycling. If you don't accept these terms, return the unopened package to your point of purchase. A regular price cartridge without these terms is available.

(04RE1008, Order, p. 5).

cartridge, the microchip must be replaced. *Id.* The microchip on a Lexmark's non-Prebate toner cartridge, in contrast, is a multiple use microchip—*i.e.*, the cartridge can be reused multiple times and will continue to function without the need to replace the microchip. *Id.* (04RE1197, Trial Tr. 05/23/07, p. 25).

Certain suppliers including Static Control, however, managed to copy Lexmark's Prebate microchip and began selling replacement microchips for use in Prebate cartridges. Countercl. ¶ 54, J.A. 37. That undercut the Prebate program and enabled remanufacturers to sell Prebate cartridges on the aftermarket, despite the Lexmark single-use license.

3. Lexmark invests heavily in its technology and protects that technology by developing its intellectual property rights. Pet. App. 6. Believing that Static Control was infringing these rights by selling replacement microchips for Prebate cartridges, Lexmark sued on patent and copyright theories. *Id.* at 6-8.

Static Control responded with counterclaims on various antitrust and unfair competition theories. Most relevant here, Static Control claimed that Lexmark had engaged in false advertising under Section 43(a) of the Lanham Act. Static Control alleged that Lexmark misled its own customers in connection with the Prebate program. Countercl. ¶¶ 33, 37, 38, 39, J.A. 28-31. And it alleged that Lexmark sent letters to remanufacturers warning them that they would infringe Lexmark's intellectual property rights by remanufacturing Prebate cartridges, including if they

remanufactured cartridges using Static Control's products. *Id.* at ¶ 35, J.A. 29.

In support of its false advertising claim, Static Control alleged that sales have been diverted from Static Control to Lexmark—even though Lexmark and Static Control do not sell any competing products. *Id.* at ¶ 88, J.A. 44. Static Control further alleged, without factual support, that Lexmark's alleged false advertisements have "injured [Static Control's] business reputation." *Id.* Static Control did not allege that any of its customers—the remanufacturers —stopped purchasing microchips from Static Control or purchased microchips from someone else as a result of Lexmark's actions.

4. The district court dismissed Static Control's antitrust and Lanham Act counterclaims for lack of prudential standing, applying the *AGC* test to both. Pet. App. 82-83. With respect to the Lanham Act claim, the district court observed that "[m]ultiple courts" have applied the *AGC* test to analyze Lanham Act prudential standing and determined to follow suit. *Id.* at 83. The court then held that Static Control could not meet the *AGC* test.

That test, as summarized in *Conte Brothers*, examines: (1) The nature of the plaintiff's alleged injury, *i.e.* is it of the type Congress sought to redress; (2) the directness of the asserted injury; (3) the plaintiff's proximity to the alleged injurious conduct; (4) the speculativeness of damages; and (5) the risk of duplicative damages or complexity in apportioning damages. 165 F.3d at 233 (citing *AGC*, 459 U.S. at 538-544). The district court held that Static Control

lacked prudential standing under the *AGC* test because the factors cut against it. Pet. App. 83. Among other things, Static Control was not a competitor of Lexmark. *Id.* at 79, 83. Static Control's alleged injuries were remote because "Lexmark's alleged intent is to dry up spent cartridge supplies at the remanufacturing level, rather than at [Static Control's] supply level, making remanufacturers Lexmark's alleged intended target" and because "the alleged injury being a byproduct of the supposed manipulation of consumers' relationships with the remanufacturers (or intermediate cartridge brokers)." *Id.* at 83. And, equally important, "more direct plaintiffs" were available—namely, the remanufacturers, one of which in fact had sued Lexmark in this very case on a Lanham Act theory challenging the Prebate program. *Id.*

5. The Sixth Circuit agreed that Static Control lacked prudential standing under the *AGC* test to bring a federal antitrust claim. Pet. App. 20-33. Among other things, the panel concluded that Static Control is not a competitor of Lexmark, that Static Control's alleged injuries were indirect, and that the existence of a class of "more direct victims"—the remanufacturers —doomed Static Control's case with respect to several *AGC* factors. *Id.*

The Sixth Circuit, however, took a different route when it came to the Lanham Act: It held that the *AGC* test is not the proper standing test for Section 43(a) claims. *Id.* at 34-38. The panel concluded that it was bound by an earlier Sixth Circuit case that had applied the so-called "reasonable interest" test to a false

association claim under Section 43(a).[3] *Id.* at 37-38. Failing to even discuss prudential standing requirements, the panel held that Static Control had stated a claim under the reasonable interest test because it "alleged a cognizable interest in its business reputation and sales to remanufacturers and sufficiently alleged that these interests were harmed by Lexmark's statements to the remanufacturers that Static Control was engaging in illegal conduct." *Id.* at 38. The panel recognized that Static Control would not have had standing under the categorical "competitor" test applied by three circuits. *Id.* at 36. The panel did not apply the *AGC* test to Static Control's false-advertising allegations, however, because it felt bound by its prior precedent. *Id.* at 38 & n.10.

This Court granted *certiorari* to decide which prudential standing test applies.

SUMMARY OF ARGUMENT

The Lanham Act's text and context confirm that Congress expected the federal courts to employ long-standing prudential standing limits in administering Section 43(a)'s false advertising cause of action. And the appropriate prudential standing test is the one this Court adopted in *AGC*. That is so for four reasons.

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[3] Courts generally refer to claims under Section 43(a)(1)(A), which creates a cause of action for passing-off one's goods as those of another, as "false association" claims. They refer to claims under Section 43(a)(1)(B), which creates a cause of action for false representations about one's goods or those of another, as "false advertising" claims. The two statutory subsections are quoted in full *supra* at 1-2. This case involves only a false advertising claim.

First, the Lanham Act's plain text provides that the Act is designed "to protect persons engaged in . . . commerce against unfair competition." 15 U.S.C. § 1127. The *AGC* test allows courts to hew to that purpose by asking in each Section 43(a) case whether the plaintiff's alleged injury is "of a type that Congress sought to redress." 459 U.S. at 538. *Second*, Section 43(a) was designed to codify a common law unfair competition tort with rigorous proximate cause requirements, and Congress intended that similar limits be engrafted onto Section 43(a) lawsuits. The *AGC* test implements that congressional design by ensuring that the plaintiff is close to the alleged injurious conduct and suffered direct damages. *Third*, the *AGC* test is properly calibrated to produce neither underenforcement nor overenforcement of the law against false advertising. *Finally*, the three decades of case law interpreting *AGC* will assist the lower courts in evaluating prudential standing under the Lanham Act.

The *AGC* test provides the best framework for assessing prudential standing because it is both principled and flexible. In the event this Court desires a bright-line rule, however, it should adopt the categorical "competitor" test favored by three circuits, under which only a competitor of the defendant can bring suit. The categorical test furthers Congress' intent to limit the Section 43(a) cause of action to commercial plaintiffs alleging a competitive injury. And it has the virtue of simplicity, resulting in greater consistency and predictability in judicial outcomes.

By contrast, the "reasonable interest" test adopted by the Sixth Circuit has none of those attributes. That

test is vague enough to countenance any outcome, limited only by a given court's judicial temperament. It conflicts with Congress' expressed desire to limit Section 43(a) remedies to commercial plaintiffs who can show a strong competitive interest. It fails to reflect the common law limits on the unfair competition tort or to account for the background prudential standing requirements presumptively incorporated into every federal cause of action. And, worst of all, it lacks any discernible content because a plaintiff who has alleged Article III standing by definition will have alleged a "reasonable interest." The reasonable interest test accordingly does nothing to constrain a cause of action that, on its face, is broad enough to flood the federal courts with claims. It should be rejected.

ARGUMENT

I. THE LANHAM ACT INCORPORATES PRUDENTIAL STANDING LIMITATIONS.

The preliminary question is whether the Section 43(a) cause of action includes a prudential standing requirement at all. As the lower courts universally have recognized, the answer is yes.

1. Standing rules ensure that the plaintiff "is a proper party to invoke judicial resolution of the dispute and the exercise of the court's remedial powers." *Warth v. Seldin*, 422 U.S. 490, 517-518 (1975). The primary dimension of standing is the "irreducible constitutional minimum" requirement that the plaintiff "demonstrate that he has suffered injury in fact,' that the injury is 'fairly traceable' to the actions of the defendant, and that the injury will likely be redressed by a favorable

decision." *Bennett v. Spear*, 520 U.S. 154, 162 (1997) (quoting *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (1992)). But standing also has a prudential dimension, which consists of "judicially self-imposed limits on the exercise of federal jurisdiction . . . founded in concern about the proper—and properly limited—role of the courts in a democratic society." *Bennett*, 520 U.S. at 162 (quotation marks & citation omitted).

"[U]nlike their constitutional counterparts," prudential standing requirements "can be modified or abrogated by Congress." *Id.* However, in order to abrogate prudential standing requirements, Congress must "expressly negate" them. *Id.* at 163. "As a matter of statutory interpretation . . . Congress is presumed to incorporate background prudential standing principles" unless it says otherwise. *Conte Bros.*, 165 F.3d at 227 (citing *Bennett*, 520 U.S. at 162; *United Food & Commercial Workers Union v. Brown Group Inc.*, 517 U.S. 544, 557 (1996)).

2. Section 43(a) of the Lanham Act provides what appears on its face to be an extraordinarily broad cause of action for false advertising: "Any person who . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by *any person who believes that he or she is or is likely to be damaged by such act*." 15 U.S.C. § 1125(a)(1)(B) (emphasis added). However, as the Third Circuit observed in *Conte Brothers*, that broad language does not answer the prudential standing question, any more than the language of the Clayton Act did in *AGC*,

because this Court repeatedly has "held that Congress has not expressly negated background prudential standing doctrine merely by passing a statute the text of which admits of a broad interpretation." 165 F.3d at 227 (citing *Bennett*, 520 U.S. at 163-65; *AGC*, 459 U.S. at 535 & n.31). Instead, a court answering the prudential standing question must go on to consider "the text of § 43(a), the explicit language of the Lanham Act declaring its purpose, as well as the Lanham Act's legislative history" to determine what Congress intended. *Conte Bros.*, 165 F.3d at 227.

Those tools of interpretation confirm that Congress expected the federal courts to incorporate prudential standing principles into Section 43(a).

a. The statutory text demonstrates that the Act's false advertising prong is intended to protect a specific class of parties—those with a strong competitive interest. Congress provided in Section 45 that the Act's purpose is "to protect persons engaged in . . . commerce against unfair competition." 15 U.S.C. § 1127. That express statement "makes clear that the focus of statute is on anti-competitive conduct in a commercial context." *Conte Bros.*, 165 F.3d at 229. As one court has noted, "[i]f Congress had intended § 43(a) to apply to noncompetitive conduct, it would have stated that the purpose of the statute was to protect persons engaged in commerce from unfair trade or unfair business practices." *Shonac Corp. v. AMKO Int'l, Inc.*, 763 F. Supp 919, 934 (S.D. Ohio 1991). It did not do so.

Accordingly, while a "literal reading" of Section 43(a)—similar to the Clayton Act—could suggest that "the statute is broad enough to encompass every harm

that can be attributed directly or indirectly to the "consequences of" false advertising, *AGC*, 459 U.S. at 529, that language read in conjunction with Section 45 reveals that the proper universe of plaintiffs is more constrained. As *Conte Brothers* put it, Section 45 "evidences an intent to limit standing to a narrow class of potential plaintiffs possessing interests the protection of which furthers the purposes of the Lanham Act." 165 F.3d at 229. In light of that intent, it makes sense to conclude that Congress desired prudential standing limits to apply to the Lanham Act, even putting the *Bennett* presumption aside. After all, "[c]onferring standing to the full extent implied by the text of § 43(a) would give standing to parties . . . having no competitive or commercial interests affected by the conduct at issue," which would "ignore the purpose of the Lanham Act as expressed by § 45." *Id.*

b. The Act's legislative history underscores that textual analysis. Congress enacted the Lanham Act in 1946 to unify trademark provisions scattered throughout federal law and to codify the common law of unfair competition. *See* S. Rep. No. 1333, 79th Cong., 2d Sess. (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275-77; *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 861 n.2 (1982) (White, J., concurring) ("[T]he purpose of the Lanham Act was to codify and unify the common law of unfair competition and trademark protection."); 5 McCarthy, *McCarthy on Trademarks and Unfair Competition* § 27:7 (4th ed. 2013) ("McCarthy") (the Lanham Act's drafters "felt that the Act should create a general federal law of unfair competition"). Section 43(a), in particular, was enacted in response to the abrogation of "federal general common law" in *Erie Railroad v. Tompkins*, 304 U.S.

64, 78 (1938). *See Conte Bros.*, 165 F.3d at 235 ("[t]he statute . . . was designed primarily to resurrect the federal tort of unfair competition after it was consigned to the post-*Erie* ashheap.").

At common law, standing to sue for unfair competition and false advertising was strictly limited. The "primary obstacle" to standing was the rigorous application of the requirement that the plaintiff show an actual injury that was proximately caused by the defendant. McCarthy § 27:1. Proximate cause was understood to require "proof of specific customers diverted from specific plaintiffs through the actions of these defendants." *Cal. Apparel Creators v. Wieder of Cal., Inc.*, 162 F.2d 893, 900-01 (2d Cir.), *cert. denied*, 332 U.S. 816 (1947)("To recover damages or to receive protective relief against the actions of these defendants, plaintiffs must therefore show not only a representation by defendants which is false and deceitful in the sense of luring customers to their doors wrongfully, but also that plaintiffs have lost their own rightful custom thereby."). As a result, plaintiffs in false advertising cases had to be not just direct competitors, but direct competitors who were the only alternative source of the good at issue. *See Mosler Safe Co. v. Ely-Norris Safe Co.*, 273 U.S. 132, 134 (1927).

As noted by the Third Circuit in *Conte Brothers*, "[t]here is no indication that Congress intended in . . . the Lanham Act . . . to abrogate the common law limitations on standing to sue." 165 F.3d at 230. On the contrary, the Lanham Act retained the common law's focus on *competitive injury* to *commercial parties*. That is clear not just in the text of Section 45 but also in the legislative history. The 1946 Senate report, for

example, repeatedly states that the statute is designed to remedy competitive injuries. *See* 1946 U.S.C.C.A.N. at 1275 (goal of Lanham Act is "to foster fair competition") ("There is no essential difference between trade-mark infringement and what is loosely called unfair competition"). This focus on competition is again echoed in the history accompanying the most recent substantive amendments to the Act in 1988.[4] *See* S. Rep. No. 100-515, 100th Cong., 2d Sess. (May 12, 1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5603 (describing "actionable false advertising claims" under the Act as an example of "unfair competition"); *id.* at 5604 (characterizing "competition between the parties" as a "traditional trademark infringement question").

c. The 1988 legislative history also is significant for two other reasons. First, the Senate Report *expressly endorsed* prudential standing limitations on Section 43(a). The Report stated that "[i]t is the committee's intention that . . . standing under Section 43(a) . . . should continue to be decided on a case-by-case basis, and that the amendments it made to the legislation with respect to these issues should not be regarded as either limiting or extending applicable decisional law." 1988 U.S.C.C.A.N. 5577, 5604. That is an unambiguous endorsement of prudential limits on the false advertising cause of action because by 1988 the federal courts had long since attached such limits to Section 43(a). Indeed, the Ninth Circuit had held just

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[4] These amendments involved a rewriting of Section 43(a). The key elements of this rewriting included dividing the statute into two subsections reflecting the two distinct "prongs" of false association and false advertising. *See* McCarthy § 27:10.

a year earlier that prudential standing limitations applied and had denied standing to a plaintiff who "failed to show injury by a competitor." *Halicki v. United Artists Commc'ns, Inc.*, 812 F.2d 1213, 1214 (9th Cir. 1987). And other circuits by that time had developed their own prudential standing tests for Section 43(a) claims, also narrowing standing to commercial plaintiffs suffering an anti-competitive injury. *See, e.g., Colligan v. Activities Club of N.Y., Ltd.*, 442 F.2d 686, 692 (2d Cir. 1971) (refusing to allow consumer suits and finding that "Congress' purpose in enacting § 43(a) was to create a special and limited unfair competition remedy"); *John Wright, Inc. v. Casper Corp.*, 419 F. Supp. 292, 325 n.18 (E.D. Pa.), *aff'd in part, rev'd in part*, 587 F.2d 602 (3d Cir. 1978) ("The cause of action belongs to members of the commercial class, *i.e.*, competitors.") (citations omitted).

Second, Congress in 1988 expressly rejected an amendment to Section 43(a) that would have broadened the universe of potential plaintiffs. The House bill "contained language expressly giving consumers the right to sue for a violation of § 43(a)." McCarthy § 27:39. But "the provision was deleted in a House-Senate Conference Committee." *Id.* That rejection demonstrates that Congress did not want Section 43(a)'s "any person who believes that he or she is or is likely to be damaged" language, standing alone, to define the universe of potential plaintiffs. If it had, then Congress should have welcomed the amendment as a way to correct court decisions limiting prudential standing to commercial competitors.

In short, Congress in enacting and amending Section 43(a) did not "expressly negate[ ]" the

background presumption that its causes of action incorporate prudential standing limits. *Bennett*, 520 U.S. at 163. Quite the contrary, Congress endorsed such limits, both explicitly and otherwise. The only remaining question is what those prudential standing limits should be.

II. THE *AGC* TEST IS THE BEST FRAMEWORK FOR ANALYZING STANDING UNDER THE LANHAM ACT.

A. This Court Should Adopt The *AGC* Test.

In *Conte Brothers*, the Third Circuit held the *AGC* test up against Section 43(a) and concluded that the *AGC* test "provides appropriate flexibility in application to address factually disparate scenarios . . . while at the same time supplying a principled means for addressing standing under . . . § 43(a)." 165 F.3d at 236. That conclusion was correct. Of the three prudential standing approaches employed by the lower courts, the *AGC* test best matches the Lanham Act's text, history, and purpose.

1. In *AGC*, this Court addressed the standing of private plaintiffs to bring suit under Section 4 of the Clayton Act, which contains language as expansive as that in Section 43(a): "[A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue[]." 15 U.S.C. § 15. The Court declined to read that text in isolation, observing that if it did so the cause of action would be "broad enough to encompass every harm that can be attributed directly or indirectly to the consequences of an antitrust violation." *AGC*, 459 U.S.

at 529. Instead, the Court examined the statute's context and history to determine "whether Congress intended such an open-ended meaning." *Id.* at 530. It concluded that the answer was no. "The repeated references to the common law" in the legislative history "ma[de] it clear that Congress intended the Act to be construed in the light of its common-law background." *Id.* at 531. And that common law background featured a "number of judge-made rules [that] circumscribed the availability of damages," including "doctrines such as foreseeability and proximate cause, directness of injury, [and] certainty of damages[.]" *Id.* at 532-33.

The Court thus turned to identifying the relevant prudential standing considerations. First, it was "appropriate to focus on the nature of the plaintiff's alleged injury" to determine whether it was " 'of a type that Congress sought to redress in providing a private remedy for violations of the antitrust laws.' " *Id.* at 538 (quoting *Blue Shield of Va. v. McCready*, 457 U.S. 465, 483 (1982)). That factor cut against the *AGC* plaintiff's standing because the antitrust statutes were "enacted to assure customers the benefits of price competition . . . in the relevant market" and the plaintiff "was neither a consumer nor a competitor in the market in which trade was restrained." *AGC*, 459 U.S. at 538-39.

The Court next gave effect to the "common-law background," *id.* at 531, by examining two considerations related to proximate cause: "[T]he directness or indirectness of the asserted injury" and the speculativeness of the plaintiff's damages claim. *Id.* at 540, 542. These considerations, too, cut against the *AGC* plaintiff because the plaintiff's injuries "were only an indirect result of whatever harm may have

been suffered" by others and because "nothing but speculation informs the [plaintiff's] claim of injury by reason of the alleged unlawful coercion." *Id.* at 541, 543.

Finally, the Court looked to two considerations relevant to manageability: Whether there were more direct victims in the relevant market who could be expected to sue, and whether allowing the would-be plaintiff to bring suit created a "risk of duplicate recoveries" or "complex apportionment of damages." *Id.* at 541-42, 544. The Court answered both questions in the affirmative, and that too cut against prudential standing. The Court explained that "[d]enying the [plaintiff] a remedy on the basis of its allegations in this case is not likely to leave a significant antitrust violation undetected or unremedied." *Id.* at 542. "The existence of an identifiable class of persons whose self-interest would normally motivate them to vindicate the public interest in antitrust enforcement diminishes the justification for allowing a more remote party . . . to perform the office of a private attorney general." *Id.* By contrast, *allowing* such indirect plaintiffs a remedy would "burden[ ] the courts" by forcing them to apportion damages among directly and indirectly affected entities. *Id.* at 545. The plaintiff accordingly lacked standing, and its complaint was dismissed.

2. The *AGC* test, in short, considers five questions to determine who is a proper plaintiff:

> (1) The nature of the plaintiff's alleged injury: Is the injury of a type that Congress sought to redress in providing a private remedy . . . ?

> (2) The directness or indirectness of the asserted injury.
>
> (3) The proximity or remoteness of the party to the alleged injurious conduct.
>
> (4) The speculativeness of the damages claim.
>
> (5) The risk of duplicative damages or complexity in apportioning damages.

Conte Bros., 165 F.3d at 233 (quotation marks & citations omitted) (summarizing *AGC*). That test should apply to Section 43(a) prudential standing just as it does to Clayton Act prudential standing. It is the appropriate test because it implements Congress' directives, and it is well-calibrated to root out false advertising without expanding the federal cause of action beyond manageable limits.

a. The *AGC* test's first inquiry—whether "the injury [is] of a type that Congress sought to redress in providing a private remedy for violations of the antitrust laws"—is a good fit with Section 43(a) because it allows courts to honor Congress' express description of the provision's proper scope. Congress explained in the adjacent Section 45 that "the intent" of the Act was *"to protect persons engaged in . . . commerce against unfair competition."* 15 U.S.C. § 1127 (emphasis added). That provision "makes clear that the focus of [the] statute is on anti-competitive conduct in a commercial context." *Conte Bros.*, 165 F.3d at 229. Moreover, as set forth *supra* at 16-20, the legislative history is to the same effect: It demonstrates that Section 43(a) "was designed

primarily to resurrect the federal tort of unfair competition" and its attendant strict requirements for standing. *Id.* at 230, 235. Given that congressional design, allowing Section 43(a) lawsuits by plaintiffs who are not commercial actors, or who lack strong "competitive . . . interests," would "ignore the purpose of the Lanham Act." *Id.* at 229. The *AGC* test avoids that result by examining a plaintiff's allegations and its place in the relevant market to ensure that they fall "within the area of congressional concern." *AGC*, 459 U.S. at 539 (citation omitted).

b. The *AGC* test's second and fourth factors—the directness of the asserted injury and the speculativeness of the damage claim—likewise hew to the concerns of Section 43(a) because they give content to common law limits on analogous causes of action. As set forth *supra* at 16-18, Section 43(a) codified the common law tort of unfair competition. *See* McCarthy § 27:7; *Conte Bros.*, 165 F.3d at 235. In doing so, Congress was "legislat[ing] against the background of [the Court's] prudential standing doctrine, which applies unless it is expressly negated." *Bennett*, 520 U.S. at 163. And the common law cause of action that Congress codified contained prudential limitations that opened the courthouse doors only to plaintiffs who could plausibly allege (i) an injury arising directly from the alleged unfair competition and (ii) a damages theory that did not depend on effects beyond the relevant market. Specifically, under pre-*Erie* federal common law a plaintiff only had standing to assert a claim for false advertising when the defendant palmed off his goods as those of the plaintiff, or when the plaintiff was the only other source of the goods involved, so that proof of the alleged injury would not

require speculation as to whether customers might have obtained the goods in question from someone other than the plaintiff but for the defendant's false advertising. *Am. Washboard Co. v. Saginaw Mfg. Co.*, 103 F. 281 (6th Cir. 1900); *Ely-Norris Co.*, 273 U.S. 132.

The *AGC* test examines these same factors. It accordingly keeps the Section 43(a) cause of action rooted in the common law the statute was designed to codify.

c. Finally, the *AGC* test's third and fifth factors—the plaintiff's proximity to the conduct complained of, and the risk of duplicative damages or complexity in apportioning damages—are appropriate inquiries under Section 43(a) because they ensure that the federal false advertising cause of action provides a calibrated level of enforcement without overburdening the federal courts.

The "proximity" factor examines whether there is "an identifiable class of persons" closer to the alleged bad acts "whose self-interest would normally motivate them to vindicate the public interest in . . . enforcement." *AGC*, 459 U.S. at 542. If there is, allowing the would-be plaintiff to sue is inappropriate for two reasons. First, it is unnecessary; the entities closer to the defendant's actions in the relevant market can be entrusted "to perform the office of a private attorney general." *Id.* Second, it produces overenforcement of false advertising claims. As one commentator explained, if *everyone* in the causal chain, from direct competitors to retailers to consumers, were allowed to sue whenever a business allegedly engages

in false advertising, the result would be excess lawsuits, excess financial punishment, and a business community chilled from saying anything in advertisements that could possibly be construed as false. Kevin M. Lemley, *Resolving the Circuit Split on Standing in False Advertising Claims and Incorporation of Prudential Standing in State Deceptive Trade Practices Law: The Quest for Optimal Levels of Accurate Information in the Marketplace*, 29 U. Ark. Little Rock L. Rev. 283, 289 (2007). That would produce "a net reduction of information in the market, causing it to fall below optimal levels." *Id.; see also id.* at 311 ("The corrective action would cause more harm to the market than the misinformation."). The proximity inquiry of the *AGC* test strikes the right balance by ensuring that *some* market actors can challenge anti-competitive false advertising while sidestepping the problems that would occur if *every* market actor could do so.

The fifth factor guards against a similar problem: Ensuring that the federal courts are not overburdened by lawsuits that devolve into " 'massive efforts to apportion the recovery among all potential plaintiffs' " who could claim to be affected by false advertising. *AGC*, 459 U.S. at 544 (quoting *Ill. Brick Co. v. Illinois*, 431 U.S. 720, 737-38 (1977)). After all, "[h]owever appealing this attempt to allocate the overcharge might seem in theory, it would add whole new dimensions of complexity" to these federal lawsuits "and seriously undermine their effectiveness." *Id.* (quoting *Illinois Brick*, 431 U.S. at 738). That concern, too, is as pressing in the Section 43(a) false advertising context as it was in the antitrust context presented by *AGC*. "[R]ecognizing the right of every potentially injured

party in the distribution chain to bring a private damages action . . . could result in an enormous number of relatively insignificant cases being litigated in the federal courts." *Conte Bros.*, 165 F.3d at 235. "For example . . . every corner grocer in America alleging that his sales of one brand of chocolate bars have fallen could bring a federal action against the manufacturer of another brand for falsely representing the chocolate content of its product." *Id.* If that were permissible, "the impact on the federal courts could be significant." *Id.* The *AGC* test's fifth factor, like the third, guards against such an outcome.

3. The *AGC* test, in short, fits as seamlessly with the Lanham Act as it does with the Clayton Act—perhaps not surprising, considering the two statutes use similar language, are designed to combat similar ills, and were drafted in light of the same common law background. *See Gilbert/Robinson, Inc. v. Carrie Beverage-Mo., Inc.*, 989 F.2d 985, 991 (8th Cir. 1993) ("Like the antitrust laws, the Lanham Act seeks to promote a fair and efficient marketplace, and it is therefore not surprising that [the concept of antitrust injury] has shaped judicial application of Lanham Act remedies."); *Conte Bros.*, 165 F.3d at 230 (The acts "were drafted against the backdrop of common law doctrine similar to today's prudential standing doctrine that limited the eligible plaintiff class."). That is why three circuits in recent years have adopted the *AGC* test as the prudential standing test for Section 43(a) suits. *See Conte Bros.*, 165 F.3d at 233; *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156, 1162-64 (11th Cir. 2007); *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 562-63 (5th Cir. 2001). And it is why use of the *AGC* test to measure Section

43(a) prudential standing "has the imprimatur of two prominent commentators in the area"—the McCarthy treatise and the Restatement (Third) Unfair Competition. *Conte*, 165 F.3d at 233.[5]

These conclusions make sense. The *AGC* test gives full effect to the Lanham Act's plain text. It "provides a flexible yet principled means of determining the existence of prudential standing for disparate factual scenarios, thereby allowing courts to foreclose standing on one set of facts while recognizing standing when presented with a slightly (but materially) different set of facts." *Phoenix of Broward*, 489 F.3d at 1173. And it offers the added advantage of a built-in body of precedent; 30 years of case law applying *AGC* in the antitrust context would provide guideposts to judges and litigants grappling with Section 43(a) prudential standing issues. This Court should adopt the *AGC* test as the prudential standing test for Section 43(a) false advertising litigation.

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[5] *See* McCarthy § 27:32 n.1 ("In the author's opinion, some limit on the § 43(a) standing of persons remote from the directly impacted party should be applied by analogy to antitrust law, such as use of the criteria listed in *Associated General Contractors* . . ."); Restatement (Third) Unfair Competition, § 3, cmt. f (1995) ("In determining whether an asserted injury is sufficiently direct to justify the imposition of liability, the Supreme Court's analysis of similar issues under federal antitrust law may offer a useful analogy.").

B. In The Alternative, This Court Should Adopt The Categorical "Competitor" Test.

In the alternative, this Court should adopt the bright-line prudential standing test applied by three other circuits: "[T]o have standing for a [Section 43(a)] false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury." *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 873 (10th Cir. 1995); *accord L.S. Heath & Son v. AT&T Info. Sys.*, 9 F.3d 561, 575 (7th Cir. 1993); *Halicki*, 812 F.2d at 1214 (9th Cir.).

The categorical "competitor" test is not as flexible as the *AGC* test, and it could occasionally produce overenforcement—for example, if a distant or nominal competitor is granted prudential standing, even though many more direct competitors are well-positioned to bring the same claim. *See* Lemley, *supra*, at 289. However, it does have at least three advantages. First, it is consistent with Congress' stated intent to provide a remedy for commercial plaintiffs injured by "unfair competition." 15 U.S.C. § 1127. *See Stanfield*, 52 F.3d at 873 ("A false advertising claim implicates the Lanham Act's purpose of preventing unfair competition."). Second, like any bright-line test, it "provide[s] a simple, administrable rule for district courts," *Taniguchi v. Kan Pac. Saipan, Ltd.*, 132 S. Ct. 1997, 2006 (2012), and would produce greater consistency and predictability in judicial outcomes.

Finally, the categorical "competitor" test has a virtue that the *AGC* test also offers but the Sixth Circuit's "reasonable interest" test, discussed below, manifestly does not: It constrains a universe of

plaintiffs that otherwise would be overbroad. The Ninth Circuit recognized as much in adopting the categorical test. It wrote: "If Section 43(a) is not confined to injury to a competitor in the case of a false designation, it becomes a federal statute creating the tort of misrepresentation, actionable as to any goods or services in commerce affected by the misrepresentation." *Halicki*, 812 F.2d at 1214. Limiting prudential standing to competitors avoids that burdensome result.

C. The "Reasonable Interest" Test Is Inconsistent With The Act's Text And Purpose And Provides No Guidance To Courts.

Whichever of these tests the Court adopts, it should reject the Sixth Circuit's expansive "reasonable interest" test. That test does not sufficiently reflect the intent of Congress to limit the statutory remedy to commercial parties seeking redress of a competitive injury. It does not constrain the universe of potential plaintiffs. And its amorphous contours provide virtually no guidance to courts, thereby inviting inconsistent outcomes and rendering the law unpredictable and unprincipled.

1. Some version of the reasonable interest test is used in at least three circuits. *See* Pet. App. 34-38; *see also Camel Hair & Cashmere Inst., Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6, 11-12 (1st Cir. 1986); *PPX Enters., Inc. v. Audiofidelity, Inc.*, 746 F.2d 120, 125 (2d Cir. 1984). As articulated by the Sixth and Second Circuits, a plaintiff has prudential standing to advance a Section 43(a) false advertising claim if the plaintiff

"can demonstrate '(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising.' " Pet. App. 36 (quoting *Famous Horse, Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d Cir. 2010)).

2. This approach suffers from numerous fatal flaws.

a. To begin with, it does not conform to the statutory text. Congress made clear that Section 43(a) is supposed to "protect persons engaged in . . . commerce against unfair competition." 15 U.S.C. § 1127. Therefore, the "focus of the statute is on anti-competitive conduct in a commercial context." *Conte Bros.*, 165 F.3d at 229. Both the *AGC* test and the categorical test conform to that congressional command—the *AGC* test by asking whether the alleged injury is of the type Congress intended to remedy, the categorical test by asking whether the plaintiff is a competitor of the defendant (and thus a potential victim of unfair competition).

The reasonable interest test does not. Instead, it offers a vague formulation that anyone with any alleged causal connection to the defendant's alleged conduct can meet, regardless of whether they suffered a competitive injury, how far upstream or downstream they may be in the chain of commerce, or whether they are commercial actors at all. Take, for example, the Third Circuit's hypothetical in *Conte Brothers* about a chocolate manufacturer that misrepresents the chocolate content of its product. *See supra* at 27. That manufacturer's direct competitors could sue, of course, on the theory that their sales declined as a result of the

false advertising. But corner grocers across the nation also could sue, arguing that they have a reasonable interest in maximizing their chocolate sales and that their interest was damaged when the market learned that one manufacturer was offering misleading information about its product. And consumers, too, could sue, arguing that they have a reasonable interest in purchasing high-quality chocolate bars at the lowest price and that this interest was damaged when the defendant's false advertising convinced them to eschew less expensive products. And so on. The reasonable interest test thus "give[s] standing to parties . . . having no competitive . . . interests affected by the conduct at issue." *Id.* And that "ignore[s] the purpose of the Lanham Act as expressed by § 45"—to provide a remedy for commercial actors who suffer competitive injuries. *Id.* Indeed, the reasonable interest test as articulated by the Sixth Circuit is facially inconsistent with the one prudential standing principle on which the circuits *do* agree: That consumers do not have standing under the Act.[6] The reasonable interest test cannot be reconciled with congressional intent.

b. The reasonable interest test is inappropriate for a second reason too: It is effectively indistinguishable from the analysis for Article III standing and is therefore not actually a test for prudential standing at

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[6] At least eight circuits have so held. *See Colligan*, 442 F.2d at 692 (2d Cir.); *Serbin v. Ziebart Int'l Corp.*, 11 F.3d 1163, 1177 (3d Cir. 1993); *Made in the USA Found. v. Phillips Foods, Inc.*, 365 F.3d 278, 281 (4th Cir. 2004); *Procter & Gamble*, 242 F.3d at 563-64 (5th Cir.); *L.S. Heath*, 9 F.3d at 575 (7th Cir.); *Barrus v. Sylvania*, 55 F.3d 468, 470 (9th Cir. 1995); *Stanfield*, 52 F.3d at 873 (10th Cir.); *Phoenix of Broward*, 489 F.3d at 1170-71(11th Cir.).

all. The Article III standing test requires a plaintiff to allege that he has suffered an injury-in-fact that is fairly traceable to the defendant's conduct. *Lujan*, 504 U.S. at 560. But that is precisely what the reasonable interest test boils down to. A plaintiff who alleges "a reasonable interest to be protected against the alleged false advertising" and "a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising," Pet. App. 36, is simply alleging that he or she has been harmed and that that injury can be traced to the defendant.

A review of decisions applying the reasonable interest test demonstrates that the test is, in practice, devoid of any content. In this case, for example, the Sixth Circuit applied the test as follows: "Static Control alleged a cognizable interest in its business reputation and sales to remanufacturers and sufficiently alleged that these interests were harmed by Lexmark's statements to the remanufacturers that Static Control was engaging in illegal conduct. This is sufficient to state a claim" under the reasonable interest test. *Id.* at 38. But those allegations simply amount to assertions of injury-in-fact and causation. Likewise, the First Circuit in *Camel Hair* wrote that under the reasonable interest test it is not "sufficient for the plaintiff merely to establish a falsehood in the defendant's advertising or marketing; the plaintiff must also show a link or 'nexus' between itself and the alleged falsehood." 799 F.2d at 11-12. But a "nexus" between the plaintiff's alleged injury and the defendant's conduct is nothing other than the Article III requirement of causation—*i.e.*, that the injury is

"fairly traceable" to the defendant's actions. *Lujan*, 504 U.S. at 560.[7]

c. Because the reasonable interest test adds nothing to the analysis, it fails to constrain the broad Section 43(a) cause of action—its third fatal flaw. As *Conte Brothers* observed, "recognizing the right of every potentially injured party in the distribution chain to bring a private damages action . . . could result in an enormous number of relatively insignificant cases being litigated in the federal courts." 165 F.3d at 235. This Court was unwilling to endorse such an outcome in the antitrust context, holding that "Congress did not intend the antitrust laws to provide a remedy in damages for all injuries that might conceivably be traced to an antitrust violation." *AGC*, 459 U.S. at 534 (quoting *Hawaii v. Standard Oil Co.*, 405 U.S. 251, 263 n.14 (1972)). So too here. As the Ninth Circuit has observed, absent a prudential limit with real bite, the Section 43(a) false advertising cause of action is transformed into a federal tort of misrepresentation —and one with no amount-in-controversy requirement.

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[7] Lower courts sometimes apply the reasonable interest test more strictly. For example, the Second Circuit has "frequently stressed the importance of competition between litigants in evaluating Lanham Act claims[.]" *Famous Horse*, 624 F.3d at 112. Accordingly, the Second Circuit has "tended to require a more substantial showing where the plaintiff's products are not obviously in competition with defendant's products[.]" *Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994). However, the Second Circuit has never explained how, in principle, that "more substantial showing" requirement lines up with the reasonable interest test. (It does not.) In any event, the Sixth Circuit in this case applied the reasonable interest test *simpliciter*, without adding any such gloss.

Halicki, 812 F.2d at 1214. Congress did not intend such a sprawling pathway into federal court, *see supra* at 14-20, and accordingly there is no call for the federal courts to saddle themselves with such a burden.

Nor does rejecting the toothless reasonable interest test leave all other would-be plaintiffs with no remedy; it simply does not provide them with a federal statutory cause of action. As one commentator has observed, consumers would "still have traditional [state law] causes of action—breach of contract, fraud, breach of warranties, and the like." Lemley, *supra*, at 312. And "[c]ommercial parties that lack false advertising standing may have claims for tortious interference with contract, business expectancy, or other business torts." *Id.* "The Lanham Act was designed to coexist with state laws, and it was never meant to preempt state law causes of action." *Id.* There is no need to stretch Section 43(a) beyond what Congress intended.

d. Finally, to the extent the reasonable interest test does any work at all, it is so vague and open-ended as to practically guarantee inconsistent outcomes. What constitutes "a reasonable interest to be protected against the alleged false advertising"? Pet. App. 38. With a test that nebulous, the answer can and will turn on a given district judge's personal predispositions, or on the judge's impression of the merits. This Court should reject a test that encourages such result-driven judicial decisionmaking. Far from providing a workable framework, the Sixth Circuit's approach fails to even offer a basis for principled rulings from one case to the next.

For all of these reasons, the reasonable interest test should be rejected.

III. RESPONDENT STATIC CONTROL LACKS PRUDENTIAL STANDING UNDER THE *AGC* TEST.

Applying the *AGC* test, Static Control's Section 43(a) false advertising claim should be dismissed for lack of prudential standing.[8]

1. Static Control's Lanham Act claim is based on general allegations that Lexmark made misleading statements about Prebate to Lexmark's own customers, Countercl. ¶¶ 33, 37, 38, 39, J.A. 28-31; and that Lexmark sent letters to remanufacturers asserting that they would infringe Lexmark's intellectual property rights by remanufacturing Prebate cartridges, including if they remanufactured cartridges using Static Control's products. *Id.* at ¶ 35, J.A. 29.

Static Control's only factual allegation alluding to particular "advertisements" appears in paragraph 35 of its counterclaim. That paragraph alleges that "Lexmark sent letters to most of the companies in the toner cartridge remanufacturing business upon introducing Prebate" in which Lexmark allegedly claimed that "remanufacturing Prebate-labeled toner cartridges violates Lexmark's intellectual property

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[8] The claims also would fail if this Court were to adopt the categorical "competitor" test. Both the district court and the Sixth Circuit found that Static Control was not a competitor of Lexmark. Pet. App. 36, 79. Static Control accordingly is not a proper plaintiff under the categorical test. *See Stanfield*, 52 F.3d at 873.

rights" and that if remanufacturers "used [Static Control's] products to remanufacture Lexmark toner cartridges," the remanufacturers "would violate the law." *Id.*

In further support of its false advertising claim, Static Control alleged that sales have been diverted from Static Control to Lexmark even though they do not sell the same products. *Id.* at ¶ 88, J.A. 44. And Static Control alleged without factual support that Lexmark's alleged false advertisements have "injured [Static Control's] business reputation." *Id.*

2. These allegations reveal that Static Control lacks prudential standing to advance a Section 43(a) false advertising claim under the *AGC* test. If this Court applies the *AGC* test in the first instance, rather than remanding, it should dismiss Static Control's Lanham Act claim for lack of standing.[9]

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[9] The claim also fails as a matter of law on other grounds. For example, Lexmark's alleged statements were true and the claim fails for lack of "falsity." Prior to trial, the district court held that the Prebate program is valid under both contract and patent law consistent with the holding in *Arizona Cartridge Remanufacturers Association, Inc. v. Lexmark International, Inc.*, 421 F.3d 981, 988 (9th Cir. 2005). (04RE1008, Order, pp. 20-28). After trial, the district court interpreted *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), as a change in the law of patent exhaustion and held that the Prebate program was unenforceable under patent law. (04RE1443, Order, pp. 15-20). The district court, however, left in place its conclusion that the Prebate program is valid under contract law. *Id.* at 19-20. Moreover, at trial the district court ruled that Lexmark established direct infringement by the remanufacturers and that Static Control had itself directly infringed one of Lexmark's patents. (04RE1203,

a. *Nature of the injury*. The first *AGC* question is whether the alleged injury is "of a type that Congress sought to redress in providing a private remedy[.]" *Conte Bros.*, 165 F.3d at 233. Static Control's alleged injury does not meet that description. Section 43(a)'s false advertising cause of action seeks to protect commercial parties from "unfair competition." 15 U.S.C. § 1127. And Static Control is not in "competition" with Lexmark, as both the district court and the Sixth Circuit found, because it is a mere parts supplier in the toner cartridge aftermarket. Pet. App. 36, 79. Static Control's alleged injuries accordingly are not the sort of competitive injuries at which Congress took aim. The first *AGC* inquiry weighs against prudential standing.

b. *Directness of the injury*. The second *AGC* criterion likewise weighs against prudential standing because Static Control's alleged injuries "were only an indirect result of whatever harm may have been suffered" by consumers and remanufacturers. *AGC*, 459 U.S. at 541. Lexmark directed the challenged communications at its customers and at remanufacturers, according to Static Control's allegations. Countercl. ¶¶ 33, 35, 37, 38, 39, J.A. 28-31. And, as the Sixth Circuit observed, "[t]he more-direct

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Order, pp. 2-3; 04RE1245, Order, p. 7; 04RE1362, Civil Minutes-Trial, p. 1). And the allegations could not support a false advertising claim in any event because the alleged communications are not "commercial advertising or promotion." 15 U.S.C. § 1125(a)(1)(B). *See ISI Int'l, Inc. v. Borden Ladner Gervais, LLP*, 316 F.3d 731, 733 (7th Cir. 2003) (letters to customers asserting intellectual property rights are not "commercial advertising or promotion").

victims" of the alleged anti-competitive acts "are the end users, who according to the allegations had to pay more for their cartridges," and "the remanufacturers, who were unable to compete in the market for Lexmark-compatible toner cartridges after Lexmark's Prebate program undercut their prices and reduced supply." Pet. App. 26. Thus "Static Control's injuries as a result of the Prebate program are clearly a byproduct" of injuries allegedly suffered by others closer in the causal chain. *Id.* (citation omitted). Static Control's alleged injuries, in other words, are "derivative." *Id.* They do not satisfy the "directness" criterion.

c. *Proximity to alleged bad acts.* The third criterion also militates against prudential standing because there is an "identifiable class of persons"—the remanufacturers—who are closer to Lexmark's alleged anti-competitive conduct and could be expected to bring suit. *AGC*, 459 U.S. at 542. And at least one of those remanufacturers *in fact sued* Lexmark in this case on a Section 43(a) theory related to the Prebate program. Pet. App. 81-82. Accordingly, it is clear that "[d]enying [Static Control] a remedy on the basis of its allegations in this case is not likely to leave a significant [Lanham Act] violation undetected or unremedied." *AGC*, 459 U.S. at 542. That "diminishes the justification for allowing a more remote party such as [Static Control] to perform the office of a private attorney general." *Id.*

d. *Speculative damages.* "Partly because it is indirect, and partly because the alleged effects on [Static Control] may have been produced by independent factors," Static Control's "damages claim is also highly speculative." *AGC*, 459 U.S. at 542. As

the district court explained, Static Control's alleged damages "could possibly arise from independent market decisions of remanufacturers and end users of cartridges." Pet. App. 80. And Static Control did not allege that any remanufacturer was unable to perform its contract with Static Control or that Static Control was forced to accept a lower price for any of its components as a result of the alleged false advertising.

Moreover, remanufacturers are under no duty to obtain additional supplies from Static Control. And Static Control's counterclaim contains no factual allegations to support its speculation that but for Lexmark's actions, remanufacturers would have purchased additional supplies from Static Control rather than from one of the "[o]ther suppliers" alleged in Static Control's counterclaim. Countercl. ¶ 54, J.A. 37. Thus, even if one could assume that the alleged communications persuaded some remanufacturers not to remanufacture Prebate cartridges, it would "require too much speculation to conclude that an ascertainable percentage" of those hypothetical losses were passed on to Static Control. *Phoenix of Broward*, 489 F.3d at 1171. The fourth *AGC* criterion, too, cuts against prudential standing.

e. *Duplicative recovery / complex apportionment.* Finally, Static Control has the short end of the fifth *AGC* criterion. That is so because if it could sue, then by definition so could multiple entities that are both closer to, and further away from, Lexmark's alleged conduct, and "the District Court would face problems of identifying damages and apportioning them among directly victimized" remanufacturers and "indirectly

affected" suppliers such as Static Control. *AGC*, 459 U.S. at 545.

In *Conte Brothers*, the Third Circuit explained that "recognizing the right of every potentially injured party in the distribution chain to bring a private damages action would subject defendant firms to multiple liability for the same conduct and would result in administratively complex damages proceedings." 165 F.3d at 235. The same result would follow from recognizing the right of every supplier to sue on the facts in this case.

The problem of duplicative recovery and complex apportionment is further complicated in this case because Static Control is a supplier to the remanufacturers, and thus Static Control's damages—*i.e.*, its expected profits—"are among the remanufacturers' costs." (Static Control's First Brief, pp. 45-46, United States Court of Appeals for the Sixth Circuit, 09-6287). While Static Control would seek to inflate the amount of its projected sales to remanufacturers to increase its damages claim, the remanufacturers would seek to minimize Static Control's hypothetical sales (which are their costs) to maximize their projected profits, which would be the measure of *their* Lanham Act damages claim. The courts (and Lexmark) would be faced with inconsistent factual allegations in separate actions, injecting complexity to the apportionment of damages. That is precisely the sort of burdensome exercise the fifth *AGC* criterion is designed to prevent. *See AGC*, 459 U.S. at 545.

CONCLUSION

For these reasons, the Sixth Circuit's decision should be reversed and Static Control's Lanham Act claim should be dismissed.

Respectfully submitted,

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RESPONDENT'S BRIEF

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AND
BRIEFS

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In the Supreme Court of the United States

LEXMARK INTERNATIONAL, INC.,
Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

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QUESTION PRESENTED

Section 43(a) of the Lanham Act gives a right of action to "any person who believes that he or she is or is likely to be damaged" by another person's "commercial advertising or promotion" that "misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods." 15 U.S.C. §1125(a)(1)(B).

The question presented is: Does a plaintiff have prudential standing under Section 43(a) of the Lanham Act, where the plaintiff alleges that the defendant's false advertising targeted the plaintiff's products, thereby diminishing plaintiff's sales and tarnishing plaintiff's goodwill?

CORPORATE DISCLOSURE STATEMENT

Pursuant to Supreme Court Rule 29.6, Static Control Components, Inc. states it has no parent corporation, and no publicly held company owns 10% or more of its stock.

TABLE OF CONTENTS

QUESTION PRESENTED i
CORPORATE DISCLOSURE STATEMENT ii
TABLE OF CONTENTS iii
TABLE OF AUTHORITIES v
STATUTE INVOLVED 1
STATEMENT 2
A. Statutory Background 3
B. Factual Allegations 5
C. District Court and Sixth Circuit Proceedings 10
SUMMARY OF ARGUMENT 12
ARGUMENT 17
I. STATIC CONTROL STANDS WITHIN THE ZONE OF INTERESTS PROTECTED BY THE LANHAM ACT 17
A. The Court's Zone-of-Interests Test Governs Prudential Standing Under Federal Statutes, Including Lanham Act Section 43(a). 18
B. Static Control's Claims Are Within the Lanham Act's Zone of Interests Because Lexmark Targeted Static Control's Products and Market with False Advertising. 22
C. Competition Narrowly Defined Cannot Be a Prerequisite for Lanham Act Standing. 30
II. ANTITRUST RULES DO NOT LIMIT STATIC CONTROL'S STANDING UNDER THE LANHAM ACT 36

A. The Lanham Act Abrogated Common Law Restrictions on False Advertising Suits. 38

B. Differences Between the Antitrust Statutes and the Lanham Act Make *AGC* Inappropriate for Lanham Act Standing. 44

C. *AGC's* Policy Concerns Do Not Apply on These Pleadings. 46

CONCLUSION 51

TABLE OF AUTHORITIES

CASES

A.L.A. Schechter Poultry Corp. v. United States, 295 U.S. 495 (1935) 39

Allen v. Wright, 468 U.S. 737 (1984) 20, 35

Am. Washboard Co. v. Saginaw Mfg. Co., 103 F. 281 (6th Cir. 1900) 3, 39

Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters, 459 U.S. 519 (1983) ..... *passim*

Bennett v. Spear, 520 U.S. 154 (1997) ..... *passim*

Bernard Food Indus. Inc. v. Dietene Co., 415 F.2d 1279 (7th Cir. 1969) 4, 24, 41

Boston Stock Exch. v. State Tax Comm'n, 429 U.S. 318 (1977) 20

Bridge v. Phoenix Bond & Indem. Co., 553 U.S. 639 (2008) 47

Brown Shoe Co. v. United States, 370 U.S. 294 (1962) 44

Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477 (1977) 44

Burmel Hankerchief Corp. v. Cluett, Peabody & Co., 127 F.2d 318 (C.C.P.A. 1942) 50

Camel Hair & Cashmere Inst. of Am., Inc. v. Associated Dry Goods Corp.,
799 F.2d 6 (1st Cir. 1986) 34, 47

Conn. Nat'l Bank v. Germain,
503 U.S. 249 (1992).....17

Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc.,
165 F.3d 221 (3d Cir. 1998) 37

Dastar Corp. v. Twentieth Century Fox Film Corp.,
539 U.S. 23 (2003).....25, 42

Devlin v. Scardelletti,
536 U.S. 1 (2002).....21

Elk Grove Unified Sch. Dist. v. Newdow,
542 U.S. 1 (2004).....19, 27

Ely-Norris Safe Co. v. Mosler Safe Co.,
7 F.2d 603 (2d Cir. 1925) 39

Famous Horse Inc. v. 5th Ave. Photo Inc.,
624 F.3d 106 (2d Cir. 2010) 34, 47

Gold Seal Co. v. Weeks,
129 F. Supp. 928 (D.D.C. 1955).....41

Holmes v. Sec. Investor Prot. Corp.,
503 U.S. 258 (1992).....35, 43, 50

Jack Russell Terrier Network of N. Cal. v. Am. Kennel Club,
407 F.3d 1027 (9th Cir. 2005).....30

Jimenez v. Quarterman,
555 U.S. 113 (2009).....19

L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.,
214 F.2d 649 (3d Cir. 1954) 3, 41

Leegin Creative Leather Prods., Inc. v. PSKS, Inc.,
551 U.S. 877 (2007).....44

Lexmark Int'l, Inc. v. Static Control Components, Inc.,
387 F.3d 522 (6th Cir. 2004).....10

Logan v. Burgers Ozark Country Cured Hams Inc.,
263 F.3d 447 (5th Cir. 2001).....34

Lujan v. Defenders of Wildlife,
504 U.S. 555 (1992).....5, 18

Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians v. Patchak,
132 S. Ct. 2199 (2012).....20, 28

Merck Eprova AG v. Brookstone Pharm., LLC,
920 F. Supp. 2d 404 (S.D.N.Y. 2013) 33, 47

Metallgesellschaft AG v. Sumitomo Corp. of Am.,
325 F.3d 836 (7th Cir. 2003).....37, 38

Mosler Safe Co. v. Ely-Norris Safe Co.,
273 U.S. 132 (1927).....39

PPX Enters., Inc. v. Audiofidelity, Inc.,
746 F.2d 120 (2d Cir. 1984) 34

Phillips v. New York,
362 U.S. 456 (1960).....30

Quanta Computer, Inc. v. LG Elecs., Inc.,
553 U.S. 617 (2008).....9

Reno v. Bossier Parish Sch. Bd.,
528 U.S. 320 (2000).....32

Sedima, S.P.R.L. v. Imrex Co.,
473 U.S. 479 (1985).....49

Thompson v. N. Am. Stainless, LP,
131 S. Ct. 863 (2011).....21

Two Pesos, Inc. v. Taco Cabana, Inc.,
505 U.S. 763 (1992).....40

United States v. Forty-Three Gallons of Whiskey,
108 U.S. 491 (1883).....29

Waits v. Frito-Lay, Inc.,
978 F.2d 1093 (9th Cir. 1992).....31

Warth v. Seldin,
422 U.S. 490 (1975).....5, 18, 19, 27, 48

STATUTES

5 U.S.C. §702.....23

7 U.S.C. §2305(c).....23

15 U.S.C. §1063.....50

15 U.S.C. §1064.....50

15 U.S.C. §15.....36

15 U.S.C. §15(a).....43

15 U.S.C. §298(b).....23

15 U.S.C. §1117(a).....45, 48

15 U.S.C. §1125(a)(1).....*passim*

15 U.S.C. §1126(b).....32

15 U.S.C. §1127.....14, 29, 32, 40, 44

Act of February 20, 1905, Pub. L. No. 58-84, 33 Stat. 724.....23, 49

Act of March 19, 1920, Pub. L. No. 66-163, 41 Stat. 533.....23, 40

The Lanham Act, Pub. L. No. 79-489, 60 Stat. 427 (1946) 3

Trademark Law Revision Act of 1988, Pub. L. No. 100-667, Title I, 102 Stat. 3935 ..... 4, 14, 24

RULES

Fed. R. Civ. P. 12(b)(6) 8

Supreme Court Rule 14.1(a) 30

OTHER AUTHORITIES

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H.R. Rep. No. 100-1028 (1988) 42

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STATUTE INVOLVED

Section 43(a)(1) of the Lanham Act, 15 U.S.C. §1125(a)(1), provides:

§1125. False designations of origin, false descriptions, and dilution forbidden

(a) Civil action

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

> **(A)** is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> **(B)** in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

STATEMENT

This case concerns a litigant's prudential standing to assert a claim of false advertising under Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a)(1)(B).

Petitioner Lexmark International, Inc. ("Lexmark") sued respondent Static Control Components, Inc. ("Static Control"). Static Control counterclaimed under Section 43(a), alleging, among other things, that Lexmark intentionally engages in bad-faith advertising that both misrepresents Lexmark's products and falsely asserts that using Static Control's products violates Lexmark's intellectual property rights. J.A. 20, ¶2; J.A. 43-44, ¶¶85-88. Static Control alleged that this false advertising has tarnished its goodwill and caused it to lose sales. *Id.*

The District Court for the Eastern District of Kentucky dismissed Static Control's claim for lack of prudential standing. The Sixth Circuit reversed and reinstated the claim.

This Court should affirm. Prudential standing turns on whether a litigant's claim falls within the "zone of interests" protected by the statute. *Bennett v. Spear*, 520 U.S. 154, 162-63 (1997). Any commercial party like Static Control whose products are targeted by false advertising stands at the center of the zone of interests protected by the Lanham Act. That Static Control's products are specifically designed for and enable the very commercial activity that Lexmark's false advertising attacks also places Static Control squarely within the Act's protected zone of interests.

A. Statutory Background

1. At common law, no commercial tort of false advertising existed. Such wrongs were held to be among those "for which the legislature, and not the courts, must provide a remedy." *Am. Washboard Co. v. Saginaw Mfg. Co.*, 103 F. 281, 285 (6th Cir. 1900) (Taft, Day, Lurton, J.J.).

The Lanham Act of 1946 created just such a right against false advertising and a remedy to redress injuries caused by such wrongs. Section 43(a) as originally enacted provided:

> Any person who shall affix, apply, or annex, or use in connection with any goods or services . . . any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce . . . shall be liable to a civil action by any person . . . who believes that he is or is likely to be damaged by the use of any such false description or representation.

Pub. L. No. 79-489, §43, 60 Stat. 427, 441 (1946).

2. In the decades after the enactment of the original Lanham Act, courts recognized that Section 43(a) provided a new cause of action and overturned common law restrictions on false advertising suits. *See, e.g.*, *L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.*, 214 F.2d 649, 651 (3d Cir. 1954). But some courts held that Section 43(a) was limited to a defendant's false statements about its own wares and did not provide a remedy for a defendant's false statements

about another's products. *See, e.g., Bernard Food Indus. Inc. v. Dietene Co.*, 415 F.2d 1279, 1283 (7th Cir. 1969).

3. In 1988, Congress expressly overturned the *Bernard Food Industries* line of cases, clarifying that the false advertising cause of action also covers advertisements disparaging "another person's goods." Trademark Law Revision Act of 1988, Pub. L. No. 100-667, Title I, §132, 102 Stat. 3935, 3946, *codified at* 15 U.S.C. §1125(a)(1)(B); *see* S. Rep. No. 100-515, at 40 (1988).

As amended, Lanham Act Section 43(a)(1)(B) now reads:

> (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--
>
> . . .
>
> > (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,
>
> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. §1125(a)(1).

B. Factual Allegations

For the purposes of deciding whether a claimant has standing at the pleading stage, the Court deems all allegations in the complaint to be true, construing the complaint in favor of the claimant. *Warth v. Seldin*, 422 U.S. 490, 501 (1975). The Court also presumes that "general allegations embrace those specific facts that are necessary to support the claim." *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 561 (1992) (citation omitted).

Static Control alleged the following facts:

1. Lexmark is a major manufacturer of laser printers and competes with a number of other printer manufacturers. Pet. App. 4-5. Lexmark sells its printers for very little if any profit, making up ground by selling at a substantial markup the toner cartridges printers need for operation. J.A. 26, ¶25.

A toner cartridge is a mechanical device that contains a fine powder called toner, a portion of which the cartridge uses to form the desired image or text on each printed page. J.A. 26-27, ¶¶23, 27. Toner thus functions as a laser printer's "ink." J.A. 27, ¶27. As the laser printer is used, the toner cartridge's supply of toner is depleted, and various parts of the toner cartridge (gears, blades, rollers, etc.) also become worn. J.A. 26-27, ¶¶23, 27, 29. Because cartridges run out of toner, the owner of a Lexmark printer must keep purchasing replacement cartridges over the course of the printer's life. J.A. 26-27, ¶¶23, 27.

Lexmark's business is based on the profitability of its sales of new replacement toner cartridges. J.A.

38, ¶58. Lexmark is the only manufacturer of new replacement toner cartridges that are compatible with Lexmark printers, and Lexmark purposely designs its printers to keep it that way. J.A. 26, ¶24. Lexmark derives substantial profits from its toner cartridge sales, in contrast to the minimal profits it derives from printer sales. J.A. 26, ¶25.

Lexmark's only competition for replacement toner cartridges comes from entities known as remanufacturers. J.A. 28, ¶31. Remanufacturers recycle used Lexmark toner cartridges by gathering spent cartridges, inspecting and cleaning each cartridge, replacing any worn parts, and refilling the cartridges with new toner so that they can be reused. J.A. 27, ¶29. Remanufacturers sell these refurbished replacement cartridges at significantly lower prices than Lexmark sells new replacement cartridges. *Id.* Remanufacturing is the most environmentally friendly way of handling spent cartridges, as spent cartridges disposed of in landfills require hundreds of years to decompose. J.A. 27, ¶28.

Lexmark considers the remanufacturing of its toner cartridges by third parties to be a significant competitive threat to the company's profit model. J.A. 38, ¶58. To thwart third-party remanufacturing and, thereby, to protect its high margins on new replacement cartridges, Lexmark deploys a program it calls "Prebate." Lexmark attaches to every "Prebate" cartridge it sells a label asserting that the cartridge is subject to a single-use patent license that requires the consumer to return the spent cartridge to Lexmark after its first use. J.A. 28, ¶33. Virtually all of Lexmark's cartridges are sold with a

Prebate label. J.A. 29, ¶35. Lexmark makes non-Prebate cartridges difficult to acquire. J.A. 28, ¶33.

Lexmark enforces its Prebate program by equipping each Prebate toner cartridge with a technologically sophisticated microchip that will cause the printer to stop working if the cartridge has been refurbished by anyone other than Lexmark. J.A. 33, ¶44. Over time, Lexmark has enforced its Prebate program with progressively more complex microchips with multi-layered, multi-stage encryption, all designed to prevent remanufacturers from offering refurbished, Lexmark-compatible toner cartridges to consumers. J.A. 33-34, ¶45.

To refurbish Prebate cartridges, therefore, a remanufacturer needs substitute microchips that allow the cartridges to be refurbished by someone other than Lexmark, along with other specialized parts, most of which are not off-the-shelf commodity items. J.A. 27, ¶30; J.A. 33-34, ¶¶44-45.

Static Control is a leading supplier of parts to toner cartridge remanufacturers. J.A. 27, ¶30. Static Control specifically designed substitute microchips to replace Lexmark's microchips and thereby to allow Lexmark cartridges to be refurbished by remanufacturers and reused by consumers. J.A. 37, ¶54. As Lexmark admits, Static Control's microchips "enable[] remanufacturers to sell Prebate cartridges on the aftermarket." Lexmark Br. at 8.[1]

---

[1] As the party that sought dismissal of Static Control's claims, Lexmark's admission in its brief that Static Control's products

continued...)

2. In addition to its use of disabling microchips, Lexmark perpetuates its Prebate program by way of false promotions. J.A. 43-44, ¶¶85-88. In particular, Lexmark falsely advertises to remanufacturers (*i.e.*, Static Control's customers) that Lexmark cartridges sold with a Prebate label are subject to a single-use patent license and that recycling Lexmark cartridges will thereby make them liable to Lexmark for willful patent infringement. J.A. 20, ¶2; J.A. 28-29, ¶¶33, 35; J.A. 31, ¶39. In connection with these false Prebate promotions, Lexmark specifically targeted Static Control's products. Lexmark sent letters to remanufacturers telling them that if they used Static Control's products to remanufacture Lexmark toner cartridges, they would "violate the law" and infringe "Lexmark's intellectual property rights." J.A. 29, ¶35.

These promotions were "misrepresentations" about both "Lexmark's own products and SCC's [*i.e.*, Static Control's] competing products." J.A. 44, ¶86. Static Control alleged that Lexmark made these misrepresentations willfully and in bad faith, for the purpose of "eliminat[ing] competition and to ensure that only [Lexmark] supplies replacement toner cartridges." J.A. 29, ¶36; J.A. 43-44, ¶85.

---

enable remanufacturers to compete with Lexmark is properly considered in determining whether Static Control's counterclaim states a claim for purposes of Federal Rule of Civil Procedure 12(b)(6). *See* 5C C. Wright & A. Miller, *Federal Practice and Procedure* §§1364, 1366, at 133, 141-42 (3d ed. 2004).

As the district court held below, Lexmark's advertisements about the legal effects of its Prebate program are false because Lexmark's patent rights are exhausted by Lexmark's authorized first sale of each cartridge. Mem. Op. & Order, Case No. 5:04-cv-0084, 04RE1443 (E.D. Ky. Mar. 31, 2009) (applying *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 626-30 (2008)). This means that Lexmark cannot invoke its patent rights to prohibit the collection and refurbishing of used toner cartridges, or to require consumers to return spent cartridges to Lexmark. Lexmark also falsely claimed that cartridges resold to consumers under the IBM brand were subject to such post-sale patent restrictions, when in fact Lexmark knew it had explicitly relinquished such patent rights in its contracts of first sale to IBM. Mem. Op. & Order, Case No. 5:04-cv-0084, 04RE1081, at 20-22 (E.D. Ky. 2007).

3. Lexmark's false advertising injured Static Control. Static Control alleged that Lexmark's misrepresentations proximately caused injury to Static Control by decreasing Static Control's sales of printer cartridge parts and increasing Lexmark's sales of replacement cartridges. J.A. 20, ¶2; J.A. 36, ¶¶51-52; J.A. 37, ¶54; J.A. 43-44, ¶¶85-88. Lexmark's conduct "has also irreparably harmed [Static Control] by leading consumers and others in the trade to believe that [Static Control] is engaged in illegal conduct and is a dishonest and disreputable business. Lexmark's illegal conduct has substantially injured [Static Control's] business reputation." J.A. 44, ¶88.

C. District Court and Sixth Circuit Proceedings

1. Lexmark initiated this litigation by suing Static Control in 2002. Pet. App. 3. Lexmark first sought to enjoin Static Control from selling substitute microchips that allow Lexmark cartridges to be used more than once, on the asserted ground that such microchips infringed Lexmark's software copyrights. *Id.*

The district court preliminarily enjoined Static Control's manufacture of microchips, holding that the chips likely violated Lexmark's copyrights. Pet. App. 3. The Sixth Circuit vacated that injunction, finding Lexmark unlikely to succeed on the merits. *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 551 (6th Cir. 2004) (Sutton, J.).

2. In 2003, Static Control filed counterclaims against Lexmark, including a false advertising claim under Section 43(a) of the Lanham Act and an antitrust claim under the Sherman Act, seeking both damages and injunctive relief. J.A. 8-54. Lexmark then added allegations that Static Control actively induced its remanufacturer customers to infringe Lexmark's toner cartridge patents. Pet. App. at 3, 46-47. The district court dismissed all of Static Control's counterclaims before trial, holding that Static Control lacked a sufficiently direct competitive relationship with Lexmark to establish prudential standing under the statutes raised. Pet. App. 67-80.

As is relevant here, the district court first dismissed Static Control's federal antitrust claim, analyzing the factors this Court set forth in

Associated General Contractors of California, Inc. v. California State Council of Carpenters, 459 U.S. 519 (1983) ("*AGC*"). Pet. App. 75-82. Turning to Static Control's Lanham Act claim, the district court "presum[ed]" that the "factual predicate for [the] Lanham Act claim is the same as for [the] antitrust claims." Pet. App. 82-83. The court then applied the *AGC* factors to the false advertising claim and held that Static Control lacked prudential standing to pursue its Lanham Act claim "[f]or the same reasons" that Static Control lacked antitrust standing. Pet. App. 83-84.

At trial on Lexmark's claims, a jury (advisory in part) found for Static Control on all remaining claims, finding among other things that Lexmark failed to prove that Static Control induced any remanufacturers to infringe Lexmark's patents, that the facts supported a finding of patent misuse by Lexmark, and that Lexmark misled remanufacturers and consumers with respect to whether it was legal to remanufacture cartridges resold under the IBM brand. Pet. App. 9-10; Special Verdict Form, Case No. 5:04-cv-0084, 04RE1366, 11-13 (E.D. Ky. 2007).

3. The Sixth Circuit affirmed Static Control's victory on Lexmark's affirmative claims and reinstated three of Static Control's counterclaims, including its false advertising claim under Lanham Act Section 43(a). Consistent with Sixth Circuit precedent, the court of appeals held that the proper test for prudential standing under that Section is whether the claimant "can demonstrate (1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged

by the false advertising." Pet. App. 36 (citation omitted). The Sixth Circuit held that "Static Control alleged a cognizable interest in its business reputation and sales to remanufacturers and sufficiently alleged that these interests were harmed by Lexmark's statements to the remanufacturers that Static Control was engaging in illegal conduct." Pet. App. 38. The Sixth Circuit also noted that, even if (contrary to Sixth Circuit precedent) the antitrust standing factors enunciated in *AGC* set forth the appropriate test for Lanham Act standing, the district court erred by failing to analyze the conduct that was distinctly relevant to the Lanham Act claims. Pet. App. 38 n.10.

SUMMARY OF ARGUMENT

Static Control has prudential standing to sue Lexmark under Section 43(a) of the Lanham Act because Static Control's claim falls within the zone of interests protected by the statute. This is true both because Lexmark's false advertising directly attacked the legality of Static Control's products and because Static Control specifically enables the commercial activity (*i.e.*, the lawful remanufacture of Lexmark's Prebate cartridges) that Lexmark's false advertising sought to eradicate.

1. Section 43(a) provides an express civil remedy to "any person who believes that he or she is or is likely to be damaged" by someone's "commercial advertising or promotion" that "misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods." 15 U.S.C. §1125(a)(1). Static Control's allegations fall

squarely within the text of the statute. J.A. 20, ¶2; J.A. 43-44, ¶¶85-88. The dispute before the Court is whether court-created prudential rules deprive Static Control of standing to seek redress and the proper standard for addressing that question.

The Court should apply the "zone of interests" test to this dispute. *Bennett v. Spear*, 520 U.S. 154, 162 (1997). The zone-of-interests test is a test of general applicability that the Court has used in a variety of contexts to determine prudential standing, by asking whether a complaint "arguably fall[s] within the zone of interests protected or regulated by the statutory provision or constitutional guarantee invoked in the suit." *Id.*

The plain text and the context of Lanham Act Section 43(a) place claims by companies whose goods are targeted by false advertising at the center of the statute's zone of protected interests. Lexmark targeted Static Control's products both by falsely advertising that the use of Static Control's products is illegal and by more broadly advertising that the remanufacture of Prebate-labeled cartridges is illegal. These misrepresentations were intended to suppress demand for Static Control's products, most notably the substitute microchips that Static Control specifically designs and sells to enable the remanufacture of Lexmark cartridges. Absent any sanction, Lexmark would be free to falsely advertise that it is generally illegal to remanufacture Prebate-labeled cartridges, and that it is specifically illegal to do so using Static Control's products.

Congress amended the Lanham Act in 1988 to allow suits just like this one, expressly providing a

cause of action against an advertiser that misrepresents the qualities of "another person's goods." Pub. L. No. 100-667, Title I, §132, 102 Stat. 3935, 3946, *codified at* 15 U.S.C. §1125(a)(1)(B). The suit-authorizing clause in Section 43(a), moreover, is more permissive than that chosen by Congress for other causes of action in Title 15.

Lexmark argues that Static Control should be denied standing because Static Control and Lexmark do not compete with one another. Lexmark's premise is wrong: Lexmark obviously views Static Control as a significant competitive threat, and admits that the purpose of Static Control's microchips is to enable competition with Lexmark.

Regardless, Lexmark's narrowly conceived idea of competition is not a prerequisite for bringing suit under the Lanham Act. Contrary to Lexmark's argument, the reference in the Act's legislative purposes to redressing "unfair competition," 15 U.S.C. §1127, does not require competition between a plaintiff and defendant, much less require that the parties sell exactly the same types of products (*i.e.*, finished goods versus component parts). The text of Section 43(a) defines what constitutes unfair competition subject to suit by injured persons. There is no basis to deny Static Control the right to sue Lexmark simply because Static Control's component parts ultimately reach end users as part of cartridges refurbished by remanufacturers.

2. The Court need not fashion any prudential standing test specific to the Lanham Act's false advertising cause of action. It is enough that Static Control's claims pass muster under the Court's

established zone-of-interests test. If the Court, however, prefers to use the occasion of this case to go beyond its zone-of-interests test (whether by developing a test on its own or choosing from those used by the regional circuits), the Court should use the reasonable interest test applied by the Sixth Circuit (and the First and Second Circuits) as a model. The Court should reject Lexmark's invitation to use antitrust rules from *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 529 (1983) ("*AGC*"), to decide standing under Lanham Act Section 43(a).

The Court's zone-of-interests test already accounts for the aspects of *AGC* that are generally relevant to prudential standing. Numerous differences between the Lanham Act and the antitrust statutes make applying all of the *AGC* factors, as the sole test under Section 43(a), inappropriate.

At the outset, the Court's basis for raising stringent barriers to claims under the Sherman and Clayton Acts was those statutes' incorporation of judge-made common-law causes of action. *AGC*, 459 U.S. at 531-33. Section 43(a), by contrast, was an explicit break from the judge-made law of unfair competition and the restrictions on false advertising suits contained therein.

The Lanham Act significantly broadened protections against false advertising, giving effect to U.S. treaty obligations to provide a right of action for "any person who believes that he or she is or is likely to be damaged" by false advertising. 15 U.S.C. §1125(a)(1); *see* General Inter-American Convention for Trade Mark and Commercial Protection, arts. 21

and 22, Feb. 20, 1929, 46 Stat. 2907, 2932, 2934, T.S. No. 833. In doing so, Congress abrogated common law limits on false advertising suits. Congress in 1988 reaffirmed the breadth of Section 43(a) by ensuring a cause of action for false advertising about "another person's goods." Congress has thus chosen to broadly protect the rights secured, rather than risk under-deterrence of the wrongs proscribed.

The purposes of the Lanham Act and the antitrust statutes also differ: Antitrust rules protect competition rather than competitors, but the Lanham Act protects aggrieved persons themselves—including their sales and goodwill—from false representations in the marketplace. Antitrust concerns about speculative damages, moreover, are inconsistent with the Lanham Act's authorization of suit based on "likely" injury and flexibility in the measure of what a plaintiff may recover.

Lexmark's policy arguments for barring Static Control's suit under *AGC*—that Static Control's damages are indirect, speculative, and too complex for courts to gauge—are also misplaced. Static Control will in fact prove actual, certain damages based on the reduced sales of its Lexmark-compatible products after Lexmark published its Prebate-related false advertisements to Static Control's customers. Diminished sales can also be compared to Static Control's contemporaneous sales of parts for cartridges compatible with printers made by manufacturers such as Hewlett-Packard who did not engage in such false advertising. J.A. 35-36, ¶¶49-51. Static Control, moreover, seeks injunctive relief, which affords an additional rationale in favor of Static Control's standing.

ARGUMENT

I. STATIC CONTROL STANDS WITHIN THE ZONE OF INTERESTS PROTECTED BY THE LANHAM ACT.

Section 43(a) of the Lanham Act gives a right of action to "any person who believes that he or she is or is likely to be damaged" by another person's "commercial advertising or promotion" that "misrepresents the nature, characteristics, qualities, or geographic origin of his or her *or another person's goods*." 15 U.S.C. §1125(a)(1)(B) (emphasis added).

Ordinarily, when the words of a statute are clear, the first and last rule of interpretation is "that a legislature says in a statute what it means and means in a statute what it says." *Conn. Nat'l Bank v. Germain*, 503 U.S. 249, 253-54 (1992).

Lexmark asks the Court to hold that Congress did not mean what it said when it granted "any person" a right of redress for "likely" injuries stemming from proscribed false advertising. Lexmark further asks the Court to hold that even a company whose products are targeted with false advertising and whose sales and goodwill suffer resulting harm does not qualify as "any person" eligible to sue. Court-created prudential standing rules have their place. But such rules cannot eliminate causes of action seeking to vindicate interests that the text and purposes of a statute squarely safeguard.

Lexmark's question presented asks the Court to choose from three standards the regional circuits have used to judge prudential standing under

Lanham Act Section 43(a). Lexmark Br. at i. Yet the Court need not, and indeed should not, choose from this menu. The Court's generally applicable zone-of-interests test, which has the flexibility to account for the particularities of different statutes, works well for a Lanham Act claim. Static Control's claims fall well within the Lanham Act's zone of protected interests. The Court need go no further in this case.

A. The Court's Zone-of-Interests Test Governs Prudential Standing Under Federal Statutes, Including Lanham Act Section 43(a).

This Court has long held that standing "involves both constitutional limitations on federal-court jurisdiction and prudential limitations on its exercise." *Warth v. Seldin*, 422 U.S. 490, 498 (1975). There is no dispute that Article III's case-or-controversy requirements are met here. Static Control has alleged actual damages tied to Lexmark's malfeasance, with pleaded facts to support those allegations. J.A. 20, ¶2; J.A. 35-36, ¶¶49-51; J.A. 43-44, ¶¶85-88. Static Control's injuries are "fairly traceable" to Lexmark's conduct and would be redressed by a judgment for damages and/or an injunction. *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (1992) (citation omitted).

Prudential limits on standing, like those enshrined in Article III, are "founded in concern about the proper—and properly limited—role of the courts in democratic society." *Warth*, 422 U.S. at 498. One of the most fundamental roles of a court, however, is to give force to a duly enacted statute

"according to its terms." *Jimenez v. Quarterman*, 555 U.S. 113, 118 (2009). For this reason, any prudential standing inquiry must begin with the text of the statute, and prudential limits on standing "can be modified or abrogated by Congress." *Bennett v. Spear*, 520 U.S. 154, 162 (1997). While this Court has said that abrogation of prudential limits must be "express[]," it has not required that a statute explicitly reference judicial doctrines before finding that Congress intended no prudential limits on standing. *Id.* at 163-64.

Many prudential standing restrictions address whether a plaintiff is asserting its own discrete rights—for example, prohibitions on claims arising from "generalized grievanc[es]" or asserting "the legal rights or interests of third parties." *Warth*, 422 U.S. at 499; *see also Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1, 12 (2004). These doctrines are not implicated when a statute's text grants a cause of action to a plaintiff injured by a specific violation. The standing inquiry in such cases "is whether the constitutional or statutory provision on which the claim rests properly can be understood as granting persons in the plaintiff's position a right to judicial relief." *Warth*, 422 U.S. at 500.

At bottom, prudential standing to sue is a question of legislative meaning. To answer that question, the Court has used the "zone of interests" test, under which a plaintiff has prudential standing if his or her "grievance . . . arguably fall[s] within the zone of interests protected or regulated by the statutory provision or constitutional guarantee invoked in the suit." *Bennett*, 520 U.S. at 162; *see also Elk Grove*, 542 U.S. at 12 (stating that standing

"encompasses . . . the requirement that a plaintiff's complaint fall within the zone of interests protected by the law invoked") (quoting *Allen v. Wright*, 468 U.S. 737, 751 (1984)). The test does not require "any indication of congressional purpose to benefit the would-be plaintiff," *Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians v. Patchak*, 132 S. Ct. 2199, 2210 (2012), and instead forecloses suit only when a plaintiff's "interests are so marginally related to or inconsistent with the purposes implicit in the statute that it cannot reasonably be assumed that Congress intended to permit the suit," *id.* (citation omitted). The precise calibration of these principles in any given case will depend on statutory text, context, and history, as "the breadth of the zone of interests varies according to the provisions of law at issue." *Bennett*, 520 U.S. at 163.

As explained in *Bennett v. Spear*, the zone-of-interests test had its genesis in cases arising under the Administrative Procedure Act ("APA"), but the Court has "applied it also in suits not involving review of federal administrative action" and has "listed it among other prudential standing requirements of general application." *Bennett*, 520 U.S. at 163 (citing, among others, *Boston Stock Exch. v. State Tax Comm'n*, 429 U.S. 318, 320 n.3, 321 (1977)); *see also* 13A C. Wright, A. Miller, & E. Cooper, *Federal Practice and Procedure* §3531.7, at 537-38 (3d ed. 2008) (the zone-of-interests "test continues to apply in APA cases, but applies as well to actions brought under other statutes"). The Court in *Bennett* applied the test to determine whether suit was authorized under the Endangered Species Act's citizen-suit provision. 520 U.S. at 163-66. The Court

has since used the test to say that non-named class members "fall[] within the zone of interests of the [Rule 23] requirement that a settlement be fair to all class members." *Devlin v. Scardelletti*, 536 U.S. 1, 7 (2002). The Court has also applied the test to determine what litigants may sue under Title VII of the Civil Rights Act of 1964. *Thompson v. N. Am. Stainless, LP*, 131 S. Ct. 863, 870 (2011).

The zone-of-interests test is all that is necessary to determine that Static Control has prudential standing in this case. If the Court decides to adopt one of the courts of appeals' standards as articulating the zone of interests protected by Section 43(a) of the Lanham Act, the "reasonable interest" test applied by the First, Second, and Sixth Circuits is the best choice, because it most closely tracks the Court's zone-of-interests test and the legislative purpose of protecting commercial entities from false advertising. *See generally* Br. of Law Professors As *Amicus Curiae* in Supp. of Neither Side; *Amicus Curiae* Br. of Am. Intellectual Prop. Law Ass'n in Supp. of Neither Party. This case, however, presents an opportunity to remind courts to focus on the specific zone of interests protected by any given statute, and to avoid myopic focus on a litany of factors to the detriment of statutory text and context.

B. Static Control's Claims Are Within the Lanham Act's Zone of Interests Because Lexmark Targeted Static Control's Products and Market with False Advertising.

The Court need accept only one straightforward and modest principle to decide this case and to affirm the Sixth Circuit: A company whose products are targeted with false advertising falls within the zone of interests of a statute whose text gives a remedy for false advertising about "another's goods." Regardless of how far the Lanham Act's protection extends, commercial entities whose goodwill and sales suffer when their goods and business model are falsely maligned stand at the heart of it. And companies like Static Control, whose products enable the very competition that a defendant's false advertising seeks to smother, are among the plaintiffs Congress sought to protect.

1. The text of Section 43(a), on its face, creates this cause of action for "any person who believes that he or she is or is likely to be damaged" by a false advertiser that misrepresents "his or her or another person's goods." 15 U.S.C. §1125(a)(1)(B). The statute's text places no other limits on those entitled to seek redress for damages caused by the wrongs proscribed. To the contrary, the grant of a remedy extends even to a person that merely "believes" he or she is "likely" to be injured, evincing a goal to protect victims of false advertising even when the quantum of damages may be difficult to prove.

Like the statute in *Bennett*, Section 43(a) of the Lanham Act contains an "authorization of

remarkable breadth when compared with the language Congress ordinarily uses." 520 U.S. at 164-65. It is at least as generous, if not more so, than the "generous" suit-authorizing provision of the APA, *id.* at 163 (citation and internal quotation marks omitted), which provides that "[a] person suffering legal wrong because of agency action, or adversely affected or aggrieved by agency action within the meaning of a relevant statute, is entitled to judicial review thereof," 5 U.S.C. §702.

Congress knows how to set more stringent limits when it so desires. Case-in-point are the two trademark statutes that the Lanham Act replaced. The Act of February 20, 1905, limited the right to bring an action over the improper use of a trademark to "the owner thereof." Pub. L. No. 58-84, §16, 33 Stat. 724, 728. And the Act of March 19, 1920, limited those who could sue for false designations of origin to "any person, firm, or corporation doing business in the locality falsely indicated." Pub. L. No. 66-163, §3, 41 Stat. 533, 534.

Throughout the U.S. Code, Congress has limited suit to discrete groups such as "competitors, customers, or subsequent purchasers," 15 U.S.C. §298(b) (causes of action on false descriptions related to gold and silver), and to broader (but still defined) classes of injury such as "any person injured in his business or property," 7 U.S.C. §2305(c) (causes of action for unfair trade practices with respect to agricultural products); *see also Bennett*, 520 U.S. at 165. Congress's use of the broad authorizing clause in the Lanham Act creates a conspicuously wider zone of protected interests. The Lanham Act's authorization for suit is similar to statutes this Court has said

gave standing to the "full extent permitted under Article III." *Bennett*, 520 U.S. at 165.

2. The Trademark Law Revision Act of 1988, by expressly making representations about "another person's goods" actionable, eliminates any doubt that those whose products are targeted by false advertising fall within the statute's protection. Pub. L. No. 100-667, Title I, §132, 102 Stat. 3935, 3946, *codified at* 15 U.S.C. §1125(a)(1)(B). Prior to the 1988 amendments, some courts had held that the original Section 43(a) was limited to a defendant's false statements about its own goods and did not extend to disparagement of the goods of another. *See, e.g., Bernard Food Indus. Inc. v. Dietene Co.*, 415 F.2d 1279, 1283 (7th Cir. 1969).

In 1987-88, Congress considered a series of improvements to the Lanham Act, guided by a report from a committee of experts from the United States Trademark Association. Among the report's recommendations was codification of broader judicial interpretations of Section 43(a) and legislative abrogation of *Bernard Food Industries*.[2] Congress ultimately agreed with the Trademark Association's recommendations, reframing Section 43(a) and

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[2] U.S. Trademark Ass'n Trademark Review Comm'n, *Report and Recommendations on the United States Trademark System and the Lanham Act*, 77 Trademark Rep. 375, 426-30 (1987), *reprinted in* Trademark Law Revision Act of 1987: Hearing on S.B. 1883 Before the Subcomm. on Patents, Copyrights & Trademarks of the S. Comm. on the Judiciary 100th Cong. 148-52 (1988).

overturning *Bernard Food Industries*' limitation on the right of action as "illogical on both practical and public policy levels," declaring "that the public policy of deterring acts of unfair competition will be served if Section 43(a) is amended to make clear that misrepresentations about another's products are as actionable as misrepresentations about one's own." S. Rep. No. 100-515, at 40 (1988).

By creating a cause of action against those who misrepresent "another's goods," Congress placed the targets of such false advertising attacks at the heart of the Lanham Act's zone of protected interests. As alleged, Lexmark deliberately and falsely advertised to Static Control's customers that using Static Control's products to remanufacture Lexmark toner cartridges would "violate the law." J.A. 29, ¶35; *see also* J.A. 44, ¶86. Static Control, as a company whose products were falsely maligned, must have standing to sue under the Act for damages caused by those false statements and to prevent future harm from their future repetition. As the Sixth Circuit correctly held, Static Control has a "cognizable interest in its business reputation and sales to remanufacturers and sufficiently alleged that these interests were harmed by Lexmark's statements to the remanufacturers that Static Control was engaging in illegal conduct." Pet. App. 38.

3. A statute's zone of interests is informed by the nature of the rights protected. Section 43(a) is designed to protect companies' reputations, "prohibit[ing] actions like trademark infringement that deceive consumers and impair a producer's goodwill." *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 32 (2003). The rights

created by Section 43(a), therefore, are personal and should provide standing when a plaintiff plausibly alleges that proscribed conduct harmed its goodwill.

Lexmark's false statements about Static Control's products in this case highlight why a company whose products are targeted by false advertising must have standing to sue the false advertiser. Lexmark's publications falsely claimed that use of Static Control's products violated Lexmark's intellectual property rights, causing Static Control's customers and prospective customers to believe that Static Control's products are illegal and that Static Control is a dishonest and disreputable business. J.A. 20, ¶2; J.A. 44, ¶88. In such circumstances, Static Control bears the brunt of the false-advertising injury and suffers the loss of goodwill associated with such an attack. There is no other party capable of recovering for Static Control's injury. Static Control indeed has not only the strongest but a unique interest in vindicating its own reputation and goodwill in response to this false advertising, and it should not be forced to rely on its customers (*i.e.*, the remanufacturers) to vicariously understand and to defend those interests. Even if Congress intended some implied limitation on those who can sue under the Lanham Act, Congress could not have intended for any such limitation to deprive rights of redress to plaintiffs whose products are falsely maligned by a defendant for its own commercial benefit.

A rule of decision that companies whose products are specifically targeted by false advertising have standing to sue the false advertiser fits well within the Court's prudential standing jurisprudence. Such

plaintiffs have their own grievances to pursue, and are not asserting others' rights. *Warth v. Seldin*, 422 U.S. 490, 499 (1975); *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1, 12 (2004). Further, allowing those whose products are misrepresented to sue does not risk opening floodgates to an unlimited class of plaintiffs. Any advertiser—by controlling whose products it speaks falsely about—controls the parties allowed to sue under such a rule.

4. Beyond Lexmark's false statements about the legality of using Static Control's products, Static Control also has standing under the Lanham Act to sue Lexmark for its more general but equally false Prebate-related promotions. These claims fall within the zone of interests of the Lanham Act because the false advertising in effect and purpose targeted Static Control's microchips and other competition-enabling products. Lexmark's general Prebate-related promotions included, for instance, falsely telling remanufacturers (Static Control's customers) that they are legally prohibited from refurbishing any Prebate cartridge. J.A. 29, ¶35.

Lanham Act Section 43(a) specifically grants a cause of action to "any person" injured by an advertiser who "misrepresents the nature, characteristics [or] qualities . . . of his or her . . . goods." 15 U.S.C. §1125(a)(1)(B). Static Control's products are specifically designed for use in the refurbishment of Lexmark's printer cartridges. J.A. 13, ¶32; J.A. 27, ¶30; J.A. 37, ¶54. Lexmark, through deceptive advertisements about its own goods supposedly being sold subject to single-use patent licenses, intended to stop all remanufacturing of Lexmark cartridges, eliminating the only market

into which Static Control's Lexmark-compatible parts can be sold. J.A. 29, ¶36.

That Lexmark enforces its false Prebate representations by integrating disabling microchips into its cartridges gives Static Control—as the designer and manufacturer of substitute microchips—a strong commercial interest in recovering its losses and preventing future harm from that false advertising. Lexmark itself recognizes that the commercial viability of Static Control's microchips is intertwined with the effect of the Prebate program, complaining that Static Control's microchips "enable[] remanufacturers to sell Prebate cartridges on the aftermarket, despite the Lexmark single-use license." Lexmark Br. at 8. Static Control was thus foreseeably and inevitably harmed by Lexmark's misrepresentation of its own goods and its false statements alleging patent infringement against remanufacturers who were not bound by that purported "single-use license."

As the maker and merchant of microchips that lawfully overcome the technological hurdles Lexmark erects to enforce its Prebate program, Static Control has one of the strongest interests, if not the strongest interest, in ensuring that Lexmark does not misrepresent the legal consequences of remanufacturing Prebate cartridges. This interest is neither merely "marginally related" to nor "inconsistent with the purposes implicit in the statute." *Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians v. Patchak*, 132 S. Ct. 2199, 2210 (2012) (citation omitted). As such, Static Control's commercial interest in protection from Lexmark's false advertising lies within the zone of interests of Section 43(a).

5. Static Control's right to sue is further buttressed by Section 43(a)'s purpose "to provide rights and remedies stipulated by treaties and conventions respecting . . . unfair competition." 15 U.S.C. §1127. In the General Inter-American Convention for Trade Mark and Commercial Protection, the United States committed to forbid "false descriptions of goods" and to ensure that "those causing such injury shall . . . be answerable in damages to the injured party." Arts. 21 and 22, Feb. 20, 1929, 46 Stat. 2907, 2932, 2934, T.S. No. 833.

That Section 43(a) implements the United States' treaty commitment to provide a remedy for false advertising counsels against creating overly stringent limitations on Lanham Act standing. As this Court has long held, "[t]he laws of Congress are always to be construed so as to conform to the provisions of a treaty, if it be possible to do so without violence to their language." *United States v. Forty-Three Gallons of Whiskey*, 108 U.S. 491, 496 (1883). It is one thing to start from a presumption that the United States Congress "legislates against the background of [the United States Supreme Court's] prudential standing doctrine" and thus require it to "expressly negate[]" such principles if it so desires. *Bennett v. Spear*, 520 U.S. 154, 163 (1997). But it would be quite another for courts to expect foreign trading partners to adjust their expectations of negotiated civil remedies based on the nuances of the U.S. judiciary's prudential standing doctrines. This Court is and should remain wary of limiting the reach of statutes that implement treaty obligations.

C. Competition Narrowly Defined Cannot Be a Prerequisite for Lanham Act Standing.

1. The principal assumption that Lexmark emphasizes in arguing that Static Control lacks standing to sue is Lexmark's view that Static Control and Lexmark do not compete (making Static Control's damages allegedly indirect and speculative).[3] Lexmark, in fact, asks the Court to adopt a categorical test explicitly requiring competition narrowly defined as an element of standing. Lexmark Br. at 29-30; *see also Jack Russell Terrier Network of N. Cal. v. Am. Kennel Club*, 407 F.3d 1027, 1037 (9th Cir. 2005).

Lexmark is wrong on all counts. Lexmark and Static Control are fierce competitors, even if Static Control sells specialized parts that others incorporate into finished goods, while Lexmark sells competing finished goods. Lexmark understood that it

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[3] Lexmark raises an argument in a footnote—not raised before or addressed by the Sixth Circuit—that Lexmark's statements are not "advertising or promotion." Lexmark Br. 37-38 n.9. Lexmark is mistaken on every point. For example, there can be no difference between the impact of a letter mass-mailed to the relevant buying public or published as an "open letter" in a trade magazine; each is "commercial advertising or promotion" under Section 43(a). Regardless, Lexmark's argument is not "fairly included" within the question presented. Supreme Court Rule 14.1(a). Any dispute as to whether the communications here qualify would in fact reinforce that "the totality of circumstances . . . did not warrant bringing the case here." *Phillips v. New York*, 362 U.S. 456, 456 (1960).

could most effectively and efficiently eliminate competition for replacement cartridges by controlling the supply of replacement-cartridge parts. That is why Lexmark incorporated advanced electronic microchips in its cartridges, contractually prohibited its microchip supplier from selling cartridge microchips to anyone other than Lexmark, and initiated this litigation specifically to stop Static Control from manufacturing Lexmark-compatible microchips. J.A. 33-34, ¶¶44-47; Pet. App. 7-8. Lexmark cannot on the one hand sue Static Control to gain a competitive advantage but on the other hand claim that Static Control lacks standing because it is too remote from competition.

A competition requirement lacks any basis in the text of the Lanham Act, the purposes of Section 43(a), the logic behind protecting commercial entities from false advertising, or this Court's prudential standing cases. Even worse, requiring competition (narrowly defined) would compel the Court to interpret the same words in the statute to mean different things depending on what subsection is modifying those words. The same clause giving a right of action to "any person who believes that he or she is or is likely to be" injured applies to both *false association* claims and *false advertising* claims. *Compare* 15 U.S.C. §1125(a)(1)(A), *with id.* §1125(a)(1)(B). Competition cannot logically be a prerequisite for claims for false association, otherwise a food company like Kraft would lack standing to sue a cookware merchant that deceived consumers as to an affiliation with the Kraft brand. *See Waits v. Frito-Lay, Inc.*, 978 F.2d 1093, 1107-10 (9th Cir. 1992). Because this Court rightly "refuse[s]

to adopt a construction that would attribute different meanings to the same phrase in the same sentence," *Reno v. Bossier Parish Sch. Bd.*, 528 U.S. 320, 329 (2000), it should not interpret the "any person" language in Section 43(a) to include a competition requirement for false advertising claims.

The statute does, as Lexmark contends, refer in Section 45's statement of purpose to remedying "unfair competition." 15 U.S.C. §1127; Lexmark Br. 15-16. But that portion of the statute does not require competition specifically between the parties for there to be "unfair competition" within the meaning of the Lanham Act. Section 45's use of the term "unfair competition" is no more than a generic description of the specific business practices required to be proscribed by treaty and implemented through Section 43(a). Section 43(a)'s text does not include competition as an independent element of a false advertising claim. To require competition would rewrite the operative language of the statute and ignore the corresponding statutory purpose of "provid[ing] rights and remedies stipulated by treaties and conventions." 15 U.S.C. §1127; *see also* 15 U.S.C. §1126(b) (referring to the Lanham Act's implementation of treaty obligations to give remedies for "unfair competition").

The leading treatise on trademarks and unfair competition, among others, has roundly criticized any categorical requirement of competition for a Lanham Act claim: "[T]he passé semantic argument that there cannot be 'unfair competition' without 'competition' between the parties has often been rejected." 5 J. Thomas McCarthy, *McCarthy on Trademarks* §27:32 (4th ed. 2010). For this reason,

some courts' requirement of competition for standing under the Lanham Act is "an aberration in the history of court interpretation of §43(a)." *Id.* This Court should correct that aberration.

2. A rule that heavily weights or explicitly requires parties to sell the same types of goods into the same markets before a plaintiff can invoke federal protection against false advertising lacks principle. Different industries have different characteristics and market structures, and competitive interests in those industries may not be pigeon-holed into a single pattern. The fact that Static Control chooses to sell its parts to geographically dispersed remanufacturers rather than gathering used cartridges and remanufacturing them itself should not alone undermine standing. Static Control has a competitive interest at stake when Lexmark intentionally makes its microchips both indispensable to the remanufacturing process and unavailable from sources other than companies like Static Control.

Other industries provide additional examples of companies deserving of protection from false advertising by others who sell competing, but distinct, types of products. Take, for example, a recent case involving the pharmaceutical industry. Merck Eprova "manufactures and distributes pharmaceutical and dietary ingredients" but does not "sell any finished products to consumers." *Merck Eprova AG v. Brookstone Pharm., LLC*, 920 F. Supp. 2d 404, 411 (S.D.N.Y. 2013). Brookstone Pharmaceuticals—a merchant of finished goods—misleadingly mimicked certain of Merck's active ingredients to encourage substitution between its products and those of Merck's customers. In a

competitive situation similar to this one, Merck successfully sued under the Lanham Act. *Id.* at 434.

Other courts have found standing for businesses selling at different levels of a given market when their commercial interests justified protection from false advertising. *See Camel Hair & Cashmere Inst. of Am., Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6, 11-12 (1st Cir. 1986) (holding that standing exists for association of cashmere dealers and merchants of cashmere goods to sue retailers and coat manufacturer for false designations of cashmere content of coats); *Famous Horse Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113-14 (2d Cir. 2010) (holding that standing exists for retailer of authentic clothing to sue wholesale supplier of lower-priced counterfeit goods). And courts have found various other non-competitor commercial interests worthy of protection against false advertising. *See Logan v. Burgers Ozark Country Cured Hams Inc.*, 263 F.3d 447, 460-61 (5th Cir. 2001) (false advertising suit by patent owner against unlicensed non-competitor); *PPX Enters., Inc. v. Audiofidelity, Inc.*, 746 F.2d 120, 124-25 (2d Cir. 1984) (suit by licensor entitled to royalties from sales of Jimi Hendrix albums against parties who deceptively labeled Hendrix recordings).

3. DRI—The Voice of the Defense Bar argues that the Court should adopt a categorical test insisting on competition (narrowly defined) because such a rule would draw the brightest line. *See* DRI—The Voice of the Defense Bar's *Amicus Curiae* Br. in Supp. of Pet'r at 2. A test requiring such competition, though, is no clearer than the rule Static Control advocates—that those who are targeted with false advertising are within the

statute's zone of interests to sue. The categorical test would preclude standing in more cases, but that is neither a virtue *per se* nor a feature of "clarity."

Clear rules have many benefits. But a bright line for prudential standing would hollow out the statute. If a given test is not easily administrable, the answer is not for courts to layer additional limits (however convenient) on those set forth in the legislative text. The answer is to enforce the statute.

In some instances the Court has inferred limits in otherwise clear statutes because Congress must not have meant, for example, to allow a "stockholder who suffered a heart attack upon reading a false earnings report [to] recover his medical expenses" under a statute conferring a right of action on "all purchasers, sellers, or owners of stock injured by securities fraud." *Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258, 288 (1992) (Scalia, J., concurring). But it would not be appropriate for the Court to impose a limiting, atextual bright-line rule in place of the permissive rule set forth in the statute because divining legislative meaning on the margins is too difficult. The Court should thus reject any rule that places too much emphasis on competition narrowly defined, to the exclusion of other protected interests.

The zone-of-interests test, moreover, "hardly leaves courts at sea . . . . Like most legal notions, the standing concepts have gained considerable definition from developing case law. In many cases the standing question can be answered chiefly by comparing the allegations of the particular complaint to those made in prior standing cases." *Allen v. Wright*, 468 U.S. 737, 751-52 (1984).

II. ANTITRUST RULES DO NOT LIMIT STATIC CONTROL'S STANDING UNDER THE LANHAM ACT.

Lexmark asks the Court to import into the Lanham Act certain standing factors found relevant under federal antitrust law. *See* Lexmark Br. at 20-28; *Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters*, 459 U.S. 519, 529 (1983) ("*AGC*"). To do so, however, would be inappropriate. The Lanham Act (unlike the Sherman Act) abrogated common law restrictions on who can bring the suits it governs. Additionally, many fundamental textual and policy differences exist between the antitrust and false advertising statutes that require different approaches as to who may sue. And the facts Static Control has pleaded, moreover, show that Lexmark's policy concerns do not apply in this case.

In *AGC*, the Court addressed whether a labor union's allegations that companies had agreed to hire only non-union firms "sufficiently alleges that the unions have been 'injured in [their] business or property by reason of anything forbidden in the antitrust laws'" for purposes of the Clayton Act. *Id.* at 521 (quoting 15 U.S.C. §15). The *AGC* Court reasoned that strict limits on recoverable injuries were implicit in the Sherman and Clayton Acts because the Sherman Act was based on the common law with respect to anticompetitive restraints on trade. *Id.* at 530-34. Specifically, the Court found that "Congress intended the Act to be construed in the light of its common-law background." *Id.* at 531. In doing so, the Court quoted Senator Sherman's statement that the Act "'does not announce a new

principle of law.'" *Id.* (quoting 21 Cong. Rec. 2456, 2459, 3149, 3151–3152 (1890)). The Court then looked at a number of factors it found relevant to "whether the [Clayton Act] affords a remedy in specific circumstances," *id.* at 537, including the "nature of the plaintiff's alleged injury," the "directness or indirectness of the asserted injury," the "speculative" nature of damages, and the goal of avoiding complex judicial proceedings. *Id.* at 538-45. The Court ultimately held that the union was "not a person injured by reason of a violation of the antitrust laws within the meaning of § 4 of the Clayton Act." *Id.* at 545-46.

The Third Circuit, in an opinion written by then-Judge Alito, was the first court of appeals to apply *AGC* in the Lanham Act context, suggesting that "[t]he test for antitrust standing set forth . . . in [*AGC*] provides an appropriate method for adding content" to the Third Circuit's "reasonable interest test." *Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 233 (3d Cir. 1998). Applying the *AGC* factors, the *Conte Brothers* court concluded that retailers who could apparently sell (but chose not to sell) Quaker State motor oil were not in a position to sue Quaker State for false advertising when Quaker State misrepresented the qualities of its oil. *Id.* at 235.

The *AGC* factors should not be adopted by this Court as the test for prudential standing under Lanham Act Section 43(a). As a threshold matter, it is unclear whether *AGC* represents application of prudential standing principles, rather than the substantive elements of a Clayton Act claim. *See, e.g, Metallgesellschaft AG v. Sumitomo Corp. of Am.*, 325

F.3d 836, 843 (7th Cir. 2003) (stating that antitrust standing is "distinct from Article III and prudential standing"). To the extent *AGC* is about prudential standing at all, the aspects of *AGC* that are helpful in determining prudential standing here are covered by asking whether a claimant "arguably fall[s] within the zone of interests protected or regulated by the statutory provision." *Bennett v. Spear*, 520 U.S. 154, 162 (1997). And differences in the statutes' histories and purposes make further incorporation of *AGC*'s principles unwarranted.

A. The Lanham Act Abrogated Common Law Restrictions on False Advertising Suits.

Lexmark's argument for applying the *AGC* factors to Lanham Act Section 43(a) centers on its oft-repeated (but unsupported) refrain that the Lanham Act codified the common law of unfair competition. Lexmark Br. at 3, 4, 12, 13, 16, 24, 25, 27. Contrary to this *ipse dixit*, the history of Lanham Act Section 43(a) shows that Congress in that statute created new rights and remedies not available at common law, superseding some of the very limits that Lexmark asks this Court to resurrect through prudential standing rules.

In stark contrast to the Sherman Act, which "d[id] not announce a new principle of law," *AGC*, 459 U.S. at 531 (citation omitted), Lanham Act Section 43(a) expressly announced a new principle of law. Early common law cases restricted unfair competition suits to "passing off," *i.e.*, misrepresenting one's goods as those of another. The

Court long ago explained: "Unfair competition, as known to the common law, is a limited concept. Primarily, and strictly, it relates to the palming off of one's goods as those of a rival trader." *A.L.A. Schechter Poultry Corp. v. United States*, 295 U.S. 495, 531-32 (1935) (citations omitted).

Under the limited scope of the common law of unfair competition, no right of action existed for commercial false advertising. The *American Washboard* court, consisting of three later Justices of this Court, held that false advertising was among the "wrongs" for which "the legislature, and not the courts must provide a remedy." *Am. Washboard Co. v. Saginaw Mfg. Co.*, 103 F. 281, 285 (6th Cir. 1900) (Taft, Day, Lurton, J.J.). Similarly, in *Ely-Norris Safe Co. v. Mosler Safe Co.*, 7 F.2d 603 (2d Cir. 1925), Judge Learned Hand held that a plaintiff could only sue for false advertising when the plaintiff's damages were completely certain because "the plaintiff has a monopoly of the kind of wares concerned" and "the defendant . . . represent[s] his own as of that kind." *Id.* at 604. This Court reversed the Second Circuit based on a different reading of the complaint, but held implicitly that no false advertising cause of action existed at common law at least absent a plaintiff who was the single source of the goods at issue and a defendant who passes his wares off as such goods. *Mosler Safe Co. v. Ely-Norris Safe Co.*, 273 U.S. 132, 132-34 (1927).

Congress in its 1920 trademark statute created a limited additional cause of action for defined false representations. After the United States signed the Buenos Aires Convention of 1910, Congress enacted Section 3 of the Trademark Act of 1920, which gave

a cause of action for "false designation[s] of origin" to "any person, firm, or corporation doing business in the locality falsely indicated." Pub. L. No. 66-163, §3, 41 Stat. 533, 534 (repealed 1946); *see also Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 777 n.2 (1992) (Stevens, J., concurring). Although limitations on the right of redress in Section 3 of the 1920 Trademark Act "destined [it] for oblivion," *id.*, the authorization for "any person" in a relevant locality to sue provided a statutory right of action that went beyond the common law "single source" limitations on standing.

The 1929 General Inter-American Convention for Trade Mark and Commercial Protection ("the Convention") obligated the United States to grant domestic and foreign nationals broader protections against acts of "unfair competition," beyond those available at common law or prior statutes. Feb. 20, 1929, 46 Stat. 2907, T.S. No. 833. Chapter IV of that Convention, entitled "Repression of Unfair Competition," required the United States to repress false advertising, *id.* art. 21, and to ensure that transgressors are "answerable in damages to the injured party," *id.* art. 22.

Congress, to accomplish its goal of "provid[ing] rights and remedies stipulated by treaties and conventions respecting . . . unfair competition," 15 U.S.C. §1127, codified the Convention's mandates in Sections 43(a) and 44 of the Lanham Act. Scholars writing in the decade after the Lanham Act's enactment recognized that the Convention formed much of the "initial incentive" behind the Lanham Act. Walter J. Derenberg, *Federal Unfair Competition Law at the End of the First Decade of*

the Lanham Act: Prologue or Epilogue?, 32 N.Y.U. L. Rev. 1029, 1029 (1957).

Through Section 43(a) of the Lanham Act, Congress thus created the false-advertising remedy that the *American Washboard* court said was the legislature's prerogative. Section 43(a) expressly abrogated the *Ely-Norris* single-source rule (which required certainty of damages) by allowing "any person" who "believes" that he is "likely to be damaged" to sue. 15 U.S.C. §1125(a)(1).

Section 43(a) has long been recognized as a departure from common law rules. In *L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.*, 214 F.2d 649 (3d Cir. 1954), the Third Circuit held that Lanham Act Section 43(a) was not "merely declarative of existing law," because the statutory language differentiated it from the "judge made law of unfair competition." *Id.* at 651; *see also Gold Seal Co. v. Weeks*, 129 F. Supp. 928, 940 (D.D.C. 1955) ("In this respect Section 43(a) does create a federal statutory tort, *sui generis*"), *aff'd per curiam sub nom. S.C. Johnson & Son, Inc. v. Gold Seal Co.*, 230 F.2d 832 (D.C. Cir.), *cert. denied*, 352 U.S. 829 (1956); Rudolph Callmann, *The New Trade-Mark Act of July 5, 1946*, 46 Colum. L. Rev. 929, 931 (1946) (Section 43(a)'s "civil action in favor of any one who is *likely* to be injured" is "a most significant addition to our common-law doctrines of false advertising which, under the demoralizing influence of the Aluminum Washboard case, denied any private suit for false advertising").

Congress subsequently, moreover, reaffirmed the breadth intended for Section 43(a). Congress in 1988 overturned as illogical the *Bernard Food Industries*

line of cases, which had limited actionable false advertising to statements about a merchant's own goods. *Supra*, at 24-25.

This statutory progression highlights Section 43(a)'s abrogation of common law limitations on false advertising suits. And it makes clear that the Lanham Act should provide a cause of action to any person who can plausibly allege commercial harm from false advertising.[4]

Lexmark is thus wrong on all counts when it says that AGC should apply here because Section 43(a) codified the common law of unfair competition. Section 43(a) is distinct from the generic category of "unfair competition" because it proscribes only "certain unfair trade practices prohibited by its text." *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 29 (2003). In the false advertising context, Section 43(a) is much more permissive than the

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[4] Lexmark's citation to a standing reference in a 1988 Senate Report to the Trademark Law Revision Act, Lexmark Brief at 18, sheds no light on the question presented. The language quoted by Lexmark concerns the debate over consumer standing, not any limitations on standing for commercial actors like those that Lexmark advocates. *Compare* H.R. Rep. No. 100-1028, at 7-8, 13-15 (1988); *id.* at 32 (proposing a cause of action to "any person, including a consumer"), *with* S. Rep. No. 100-515, at 40-41 (1988); *id.* at 67 (retaining suit-authorization clause from the original Lanham Act). The standing cases cited in the legislative history of the Trademark Law Revision Act in fact generally applied the reasonable interest test that Lexmark asks the Court *not* to apply. H.R. Rep. No. 100-1028 at 13-15 (1988).

common law, establishing a cause of action where none previously existed and abrogating restrictions on suit.

The Sherman Act, by contrast, incorporated common-law rules requiring, among other things, certain damages. *See AGC*, 459 U.S. at 522 & n.26 (noting requirement that "the plaintiff [must] prove, with certainty, both the existence of damages and the causal connection"). The difference between the suit-authorizing language in the Lanham Act and that found in the Sherman and Clayton Acts reinforces the statutes' different positions vis-à-vis the common law. The suit-enabling language in the antitrust statutes, though very broad, requires the claimant to be an individual who "*shall be injured* in his business or property *by reason of*" an antitrust violation. 15 U.S.C. §15(a) (emphasis added). The Court has ascribed to Congress the intent to incorporate common law restrictions when statutes use the same language. *See Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258, 267-68 (1992) (comparing Civil-RICO to the Sherman and Clayton Acts). When Congress uses more expansive words (as in the Lanham Act), courts should give effect to the variance.

Having jettisoned by statute common-law limitations on the scope of actionable false advertising, Congress cannot have intended for the courts to reinstate similar limitations under the guise of prudential standing. Incorporating the antitrust standing factors of *AGC* into a standing test for Lanham Act claims would do just that, thereby ignoring the extensive differences between the statutes' relationships with the common law.

B. Differences Between the Antitrust Statutes and the Lanham Act Make *AGC* Inappropriate for Lanham Act Standing.

Significant other differences between the Lanham Act's false advertising cause of action and antitrust law also require different approaches to standing:

First, Section 43(a) (like the other sections in the Lanham Act) protects individual persons' goodwill. *Supra*, at 25-26; *see also* 15 U.S.C. §1127 (stating that the Act is designed "*to protect persons engaged in [interstate] commerce* from unfair competition") (emphasis added). The antitrust laws, by contrast, "were enacted for 'the protection of *competition* not *competitors*.'" *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 488 (1977) (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 320 (1962)). For this reason, this Court's antitrust jurisprudence imposes fairly rigorous limits to ensure that damages sought are to remedy an antitrust injury. *Id.* at 488-89. The same approach is not warranted in the Lanham Act context, because Section 43(a) protects individual rights.

Second, false advertising suits by their nature require little judicial gate-keeping compared to antitrust suits. Section 1 of the Sherman Act, for example, requires difficult line-drawing between unreasonable restraints on trade and those that are benign or aid competition. *See AGC*, 459 U.S. at 531; *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 885 (2007). The need in antitrust cases to determine whether conduct poses an unreasonable

restraint commends closer scrutiny of the effects of alleged anticompetitive acts—and, therefore, on plaintiffs' standing to seek redress for harm to competition. No similar problem exists with respect to false advertising, which is never a public good.

Third, *AGC*'s concern about speculative damages does not apply in the Lanham Act context because the statute specifically provides for flexibility in proving damages. The statute allows plaintiffs to recover through three distinct measures—a plaintiff's damages from the wrongdoing, a defendant's profits from the wrongdoing, or any amount "the court shall find to be just" if the "recovery based on profits is either inadequate or excessive." 15 U.S.C. §1117(a). Congress, moreover, relieved plaintiffs of the burden precisely to prove a defendant's profits, requiring only proof of the defendant's sales before shifting the burden to the defendant to prove any offsetting costs that diminished its profits. *Id.* Any standing test that turns on the uncertainty of damages would improperly invite courts to pre-judge the merits of an action when Congress specifically provided avenues for alleviating plaintiffs' burdens. The statutory flexibility with respect to proof of injuries means that uncertainty in the quantum of damages cannot bar suit at the pleading stage.

Lanham Act Section 43(a)'s different text, context, and relationship with the common law vis-à-vis the Sherman and Clayton Acts mean that the Court should decline Lexmark's invitation to incorporate antitrust rules into the very different Lanham Act context. The Court should, moreover, proceed cautiously with any multi-factor test, as such tests

can lead courts to a mechanical balancing that supplants statutory text and context. Here, as a prime example, the district court marched through a checklist of antitrust factors but failed to account for differences between the Lanham Act and Sherman Act when holding that Static Control lacked Lanham Act standing "[f]or the same reasons" that the district court believed Static Control lacked antitrust standing. Pet. App. 84. Mixing antitrust and Lanham Act doctrines would encourage other courts to assume that standing (or lack thereof) under one statute equates to standing (or lack thereof) under a different statute, as the district court did here.

C. *AGC's* Policy Concerns Do Not Apply on These Pleadings.

Each of Lexmark's arguments about Static Control's lack of standing under *AGC* refers back to the same faulty assertion: that Lexmark and Static Control do not compete against one another. Because Static Control and Lexmark do not sell the exact same products, Lexmark says that Static Control's injuries are not contemplated by the Lanham Act and are too indirect, too remote, too speculative, and too complicated for courts to administer. Lexmark Br. at 38-41. As discussed above, however, any requirement of competition (whether explicit or implicit through consideration of the *AGC* factors) is inconsistent with the statute's text, history, and purposes. *Supra*, at 30-35.

Regardless, Lexmark's policy concerns are without merit on these pleadings. Lost sales suffered by a person whose products are targeted by false

advertising, and lost sales by a person whose products are necessary components of the very goods the false advertising seeks to suppress, are both standard false-advertising injuries that Congress sought to address in Lanham Act Section 43(a). *Cf. Merck Eprova AG v. Brookstone Pharm., LLC*, 920 F. Supp. 2d 404, 411 (S.D.N.Y. 2013); *Camel Hair & Cashmere Inst. of Am., Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6, 11-12 (1st Cir. 1986); *Famous Horse Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d Cir. 2010); *supra*, at 33-34.

Static Control's damages, moreover, are not remote or indirect in the way this Court uses those terms. Injuries in *every* commercial false advertising case—just as in common law libel and defamation cases—will be caused by third parties acting on false information. Accordingly, the mere fact that an injury turns on third parties' decisions cannot itself make claims for damages too indirect or too remote. *See Bridge v. Phoenix Bond & Indem. Co.*, 553 U.S. 639, 656-58 (2008) (holding that auction participants can recover under RICO because they were directly and foreseeably injured by false statements made to those running an auction). Static Control's damages relating to the false information directed at Static Control's own customers are as direct and proximate as false advertising harms can be.

Lexmark's purported concerns about duplicative damages and complex apportionment are also misplaced. No other party can claim the same damages that Static Control seeks (*e.g.*, its lost profits). Courts, moreover, are capable of apportioning damages in a way that prevents double recovery, since all awards under the Lanham Act are "subject

to the principles of equity." 15 U.S.C. §1117(a). All that is required is a consistent allocation of the revenue from lost sales between component manufacturers central to competition (like Static Control) and those that produce finished goods. Static Control can prove the prices at which it sells Lexmark-compatible components and the costs to produce those components, establishing the measure of damages that Static Control suffered.

Standing for Static Control promotes essential policies of the Lanham Act as applied to the facts of this case. Many remanufacturers are too small to go head-to-head with Lexmark in litigation, whereas the leading supplier of essential, specialized components to the remanufacturing industry as a whole has sufficient wherewithal and motivation to fight back against Lexmark's false advertisements. A rule cutting off Lexmark's liability to all but individual remanufacturers would insulate defendants from the bulk of damages caused by false advertisements in the many commercial situations like the one at bar, leading to under-enforcement and under-deterrence of a wrong Congress proscribed.

Static Control's damages here are not speculative. Static Control's counterclaim plausibly alleges damages proximately caused by Lexmark's false statements, including lost sales and lost goodwill from those misrepresentations directed at Static Control's products. J.A. 20, ¶2; J.A. 43-44, ¶¶85-88. These allegations must be taken as true at this stage, "constru[ing] the complaint in favor of the complaining party." *Warth v. Seldin*, 422 U.S. 490, 501 (1975). But there are also pleaded facts that support the existence of damages. A comparison

between the pricing and the market share for remanufactured cartridges for Hewlett-Packard and Lexmark printers shows that Lexmark's Prebate program (including the false advertising used to execute it) has had Lexmark's desired effect of suppressing sales of remanufactured Lexmark cartridges. J.A. 35-36, ¶¶50-52. Static Control has thus sold fewer products for the remanufacture of Lexmark cartridges (and Lexmark has sold more replacement cartridges) because Lexmark falsely advertised. The exact quantum of damages and methods for calculating them are matters for trial.

Congress made the judgment in the Lanham Act to adopt a low threshold for standing when it gave a cause of action to a plaintiff who merely "*believes* that he or she is or is *likely* to be damaged." 15 U.S.C. §1125(a)(1) (emphasis added). "It is not for the judiciary to eliminate the private action in situations where Congress has provided it." *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 499-500 (1985).

Finally, Static Control's right to injunctive relief separately demonstrates why it should have standing here. By allowing suit under the Lanham Act "by any person who believes that he or she is or is likely to be damaged," 15 U.S.C. §1125(a)(1), Congress incorporated generous standing rules under the Trademark Act of February 20, 1905, which allowed "[a]ny person who believes he would be damaged by the registration of a mark" to oppose that registration. Pub. L. No. 58-84, §6, 33 Stat. 724, 726; Walter J. Derenberg, *Federal Unfair Competition Law at the End of the First Decade of the Lanham Act: Prologue or Epilogue?*, 32 N.Y.U. L. Rev. 1029, 1053-54 (1957). Parties under this statute

could oppose the registration of trademarks based on probable (rather than proven) injury. *See Burmel Hankerchief Corp. v. Cluett, Peabody & Co.*, 127 F.2d 318, 321-22 (C.C.P.A. 1942); *see also* 15 U.S.C. §§1063, 1064 (continuing to apply same standing rules under the Lanham Act). Similar leniency ought to be given to a party seeking to enjoin false advertising that potentially harms that party's goodwill and likely depresses sales of its products. "The only type of plaintiff that should be denied the opportunity to prove [an advertisement's] falsity is the 'mere intermeddler' who is minding other people's business." 5 J. Thomas McCarthy, *McCarthy on Trademarks* §27:31 (4th ed. 2010).

Policy concerns about how damages will be proven or apportioned at trial cannot undermine Static Control's federal right to make Lexmark stop speaking falsely about Static Control's products and the market for them more generally. Standing for equitable relief ought not differ from the right to recover damages. *See Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258, 289 (1992) (Scalia, J., concurring in the judgment). Static Control thus must have standing to pursue both forms of relief subject to proof of its injuries at trial.

* * *

Lanham Act Section 43(a) protects "any person" whose goods are targeted with false advertising. As the target of false advertising and as the manufacturer of microchips that enable the very remanufacturing Lexmark sought to suppress with its false advertising, Static Control's claims fall within the Lanham Act's zone of interests.

CONCLUSION

For all these reasons, the Court should affirm the judgment of the Sixth Circuit.

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v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

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TABLE OF CONTENTS

TABLE OF AUTHORITIES iii

INTRODUCTION 1

ARGUMENT 3

I. THE ZONE OF INTERESTS TEST IS NOT APPROPRIATE FOR SECTION 43(a) CLAIMS 3

II. A RULE GRANTING STANDING TO ALLEGED TARGETS IN ALL CASES IS CONTRARY TO THIS COURT'S PRUDENTIAL STANDING JURISPRUDENCE 9

III. THE AMICI'S DEFENSES OF THE REASONABLE INTEREST TEST DEMONSTRATE ITS DEFICIENCIES ... 14

IV. *AGC* PROVIDES THE APPROPRIATE TEST FOR CLAIMS UNDER SECTION 43(a) 17

A. The *AGC* test gives effect to background common law criteria 17

B. It is logical to apply similar prudential standing tests to claims of anticompetitive conduct under the Lanham Act and antitrust laws 21

C. Competition is an important, but not exclusive, consideration under the *AGC* test 22

CONCLUSION 24

TABLE OF AUTHORITIES

CASES

Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters, 459 U.S. 519 (1983) ..... *passim*

Bennett v. Spear, 520 U.S. 154 (1997) 1, 2, 3, 4, 6, 8

Boston Stock Exch. v. State Tax Comm'n, 429 U.S. 318 (1977) 3

Brown Shoe Co. v. United States, 370 U.S. 294 (1962) 21

Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477 (1977) 21

Clarke v. Sec. Indus. Ass'n, 479 U.S. 388 (1987) 2, 3, 4, 6

Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc., 165 F.3d 221 (3d Cir. 1998) 1, 2, 6, 7, 17, 23

FEC v. Akins, 524 U.S. 11 (1998) 3

Famous Horse, Inc. v. 5th Ave. Photo Inc., 624 F.3d 106 (2d. Cir. 2010) 14

Gilbert/Robinson, Inc. v. Carrie Beverage-Mo., Inc., 989 F.2d 985 (8th Cir. 1993) 21

Halicki v. United Artists Commc'ns, Inc.,
812 F.2d 1213 (9th Cir. 1987) 22

Hanover Star Milling Co. v. Melcalf,
240 U.S. 403 (1916) 18

Holmes v. Sec. Investor Prot. Corp.,
503 U.S. 258 (1992) 6, 8, 20

L.S. Heath & Son v. AT&T Info. Sys.,
9 F.3d 561 (7th Cir. 1993) 22

MCW, Inc. v. Badbusinessbureau.com, L.L.C.,
2004 U.S. Dist. LEXIS 6678
(N.D. Tex. Apr. 19, 2004) 11

Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians v. Patchak,
132 S. Ct. 2199 (2012) 3, 5

Nevyas v. Morgan,
309 F. Supp. 2d 673 (E.D. Pa. 2004) 10, 11

Procter & Gamble Co. v. Amway Corp.,
242 F.3d 539 (5th Cir. 2001) 6

Stanfield v. Osborne Indus., Inc.,
52 F.3d 867 (10th Cir. 1995) 22

Static Control Components, Inc. v. Lexmark Int'l, Inc.,
697 F.3d 387 (6th Cir. 2012) 13

Thompson v. N. Am. Stainless, LP,
131 S. Ct. 863 (2011) 3

United Drug Co. v. Rectanus,
248 U.S. 90 (1918) 17

STATUTES

5 U.S.C. § 701(a) 4

5 U.S.C. § 702 5

15 U.S.C. § 15 21

15 U.S.C. § 26 21

15 U.S.C. § 45 11

15 U.S.C. § 52 11

15 U.S.C. § 1116 21

15 U.S.C. § 1117 21

15 U.S.C. § 1125(a)(1) ..... *passim*

15 U.S.C. § 1126 7

15 U.S.C. § 1127 7

OTHER AUTHORITIES

H.R. Rep. No. 219, 79th Cong., 1st Sess.
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Restatement (First) of Torts (1939) 23

Restatement (Third) of Unfair Competition (1995) 23

S. Rep. No. 100-515, 100th Cong., 2d Sess. (May 12, 1988), *reprinted in* 1988 U.S.C.C.A.N. 5577 . . . 14

Sen. Rep. No. 1333, 79th Cong., 2d Sess. (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274 . . . . . 17, 18

INTRODUCTION

In its Response Brief, Static Control argues for the first time in this litigation in favor of the "zone of interests" test to determine prudential standing under Section 43(a) of the Lanham Act. Static Control then adds a caveat to this test, asking for automatic standing to so-called "targets" of alleged false advertising without regard to their relationship to the defendant or whether the alleged injury is the type Congress intended to redress in the Act. In so doing, Static Control effectively concedes that the "reasonable interest" test it advocated below—and that was applied by the Sixth Circuit—is not the correct test.

The zone of interests test has not been adopted by any regional circuit for Lanham Act standing, fails to effectuate Congress' intent under the Act, and should not be adopted by this Court. In the Lanham Act context, the zone of interests test is more appropriately a background consideration and does not end the standing inquiry. It is but one of "[s]everal considerations falling within the general rubric of prudential standing" that may be considered in connection with a standing analysis—along with requirements "that a litigant 'assert his [or her] own legal interests rather than those of third parties,'" and "that courts 'refrain from adjudicating abstract questions of wide public significance which amount to generalized grievances[.]'" *Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 226 (3d Cir. 1998). *See also Bennett v. Spear*, 520 U.S. 154, 163 (1997) (describing the zone of interests as being "among other prudential standing requirements of general application"). Moreover, the zone of interests test "is

not a test of universal application," *Clarke v. Securities Industry Association*, 479 U.S. 388, 400 n.16 (1987), and even when it does apply, it "varies according to the provisions of law at issue, so that what comes within the zone of interests of a statute for purposes of obtaining judicial review of administrative action under the 'generous review provisions' of the [Administrative Procedure Act ("APA")] may not do so for other purposes." *Bennett*, 520 U.S. at 163 (citations omitted).

To give content to any standing analysis, this Court should not rely on generalizations but must look to the statute at issue and other helpful indicators to determine Congress' intent. *Clarke*, 479 U.S. at 400-01. In this case, the text of the Lanham Act, its legislative history, and the common law principles incorporated into the Act—which are all three similar to those that shaped the test for prudential standing under the antitrust statutes—support application of the test set forth by this Court in *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983) ("*AGC*"). That test, as summarized in *Conte Brothers*, examines: (1) The nature of the plaintiff's alleged injury, *i.e.* is it of the type Congress sought to redress; (2) the directness of the asserted injury; (3) the plaintiff's proximity to the alleged injurious conduct; (4) the speculativeness of damages; and (5) the risk of duplicative damages or complexity in apportioning damages. 165 F.3d 233 (citing *AGC*, 459 U.S. at 538-544).

ARGUMENT

I. THE ZONE OF INTERESTS TEST IS NOT APPROPRIATE FOR SECTION 43(a) CLAIMS.

Static Control's suggestion that the Court adopt the zone of interests test for Lanham Act false advertising claims is inconsistent with this Court's prudential standing jurisprudence and Congress' intent.

1. The zone of interests test "is not a test of universal application[.]" *Clarke*, 479 U.S. at 400 n.16. It has largely been limited to challenges of government action, whether under the APA, another statute, or the Constitution.[1] *See, e.g.*, *Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians v. Patchak*, 132 S. Ct. 2199 (2012) (APA); *FEC v. Akins*, 524 U.S. 11 (1998) (Federal Election Campaign Act); *Boston Stock Exch. v. State Tax Comm'n*, 429 U.S. 318 (1977) (Commerce Clause).

Furthermore, Static Control's statement that this Court "in *Bennett* applied the [zone of interests] test to determine whether suit was authorized under the

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[1] The principal case where this Court applied the zone of interests test to claims not involving a challenge to government action was *Thompson v. North American Stainless, LP*, where this Court applied the zone of interests test to Title VII claims. 131 S. Ct. 863, 870 (2011). The Court considered the similarity of the language in Title VII to that of the APA, each of which authorize suit by a "person aggrieved." *Id.* at 869-70. This "person aggrieved" language is not in the Lanham Act, nor is there a right-of-first refusal to sue by the government as in Title VII. *See id.* at 867.

Endangered Species Act's ["ESA"] citizen-suit provision" is wrong. Resp. Br. 20. The *Bennett* Court only applied the zone of interests test when evaluating the separate APA judicial review claims at issue. 520 U.S. at 175. In evaluating standing under the ESA's citizen-suit provision, however, this Court asked whether that provision "negates the zone-of-interests test (or, perhaps more accurately, expands the zone of interests)." *Id.* at 164. The Court answered "[w]e think it does." *Id.* The considerations that led the Court to accept the ESA's citizen-suit provision's phrase of "any person" at "face value" and adopt a broad test for standing were: (1) "the overall subject matter of this legislation is the environment (a matter in which it is common to think all persons have an interest) and that the obvious purpose of the [citizen-suit] provision ... is to encourage enforcement by so-called 'private attorneys general,'" and (2) "its reservation to the Government of a right of first refusal to pursue the action initially and a right to intervene later." *Id.* at 165. Neither of those considerations are present in this case.

As this Court has explained, the zone of interests test was developed in light of "Congress' evident intent to make agency action presumptively reviewable" under the APA. *Clarke*, 479 U.S. at 399. Judicial review under the APA is uniquely expansive and applies "except to the extent that—(1) statutes preclude judicial review; or (2) agency action is committed to agency discretion by law." 5 U.S.C. § 701(a). In that context, this Court found that a very broad test that "is not meant to be especially demanding" is appropriate. *Clarke*, 479 U.S. at 399. The result is a test that "forecloses suit only when a plaintiff's 'interests are so

marginally related to or inconsistent with the purposes implicit in the statute that it cannot reasonably be assumed that Congress intended to permit the suit.'" *Patchak*, 132 S. Ct. at 2210 (citation omitted).

Indeed, the broad zone of interests test for standing under the APA is appropriate in that procedural context because its application by a court requires a second step. This second step is an analysis of the underlying substantive statute covered by the APA to determine if the would-be plaintiff is a person "adversely affected or aggrieved ... within the meaning of [the underlying] relevant statute." 5 U.S.C. § 702. And, the APA covers multiple underlying statutes that have varying purposes and statutory language. Here, however, the focus is on a single statute—the Lanham Act—thereby allowing a standing test to be specifically tailored to its purpose.

2. Yet, it is this broad zone of interests test that Static Control advocates. Static Control asserts that in every case Section 43(a) should reach beyond direct competitors and indirect competitors down the chain to persons "whose products are necessary components" of the goods that are the subject of false advertising. Resp. Br. 47. Static Control's suggestion that standing should only be denied to "the 'mere intermeddler' who is minding other people's business," stretches the limits of even the APA's zone of interests analysis. Resp. Br. 50. For any given product, Static Control's proposal begs the question of what constitutes a "necessary" component? In this case, is a supplier of work benches a provider of necessary components? The same question applies to suppliers of plastic parts or facilities in which the remanufacturers work. Under

Static Control's proposal, which of these suppliers are "unnecessary?" All of them can allege the same injury that Static Control alleges (*i.e.*, lost income indirectly due to a decrease in the volume of Lexmark cartridges remanufactured). Some of these suppliers—a landlord, for example—may even suffer a greater monetary loss than Static Control if a remanufacturer goes out of business due to false advertising.

3. Additionally, the zone of interests test is not a test that normally applies in private-party lawsuits with full-blown discovery and the potential for treble damages and attorneys' fees. This Court has repeatedly held that the appropriate prudential standing analysis for any given claim will turn on the language, history, and purpose of the statute at issue. *Bennett*, 520 U.S. at 163-65; *Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258, 266-67 (1992); *Clarke*, 479 U.S. at 400-01; *AGC*, 459 U.S. at 529-30. In each case "[t]he inquiry into reviewability does not end with the 'zone of interest' test" but rather "turns on congressional intent, and all indicators helpful in discerning that intent must be weighed." *Clarke*, 479 U.S. at 400. As a result, this Court did not adopt the zone of interests test for antitrust claims in *AGC*, and the Third and Fifth Circuits specifically rejected it under the Lanham Act in *Conte Brothers*, 165 F.3d at 226, and *Procter & Gamble Company v. Amway Corporation*, 242 F.3d 539, 562 n.49 (5th Cir. 2001).

In contrast to the APA, the scope of potential plaintiffs intended by Congress under the Lanham Act is substantially more limited. This is made clear first by the plain text of Section 45. The stated purpose of the Act relevant to false advertising (and the only one

of the several purposes stated in Section 45 that is not tied to "marks"), is "to protect persons engaged in ... commerce against unfair competition." 15 U.S.C. § 1127. As the Third Circuit explained in *Conte Brothers*:

> This section makes clear that the focus of [the] statute is on anti-competitive conduct in a commercial context. Conferring standing to the full extent implied by the text of § 43(a) would give standing to parties, such as consumers, having no competitive or commercial interests affected by the conduct at issue. ... The congressionally-stated purpose of the Lanham Act, far from indicating an express intent to abrogate prudential standing doctrine, evidences an intent to limit standing to a narrow class of potential plaintiffs possessing interests the protection of which furthers the purposes of the Lanham Act.

165 F.3d at 229.

4. Static Control's discussion of the statement in Section 45 that the Act was intended, in part, "'to provide rights and remedies stipulated by treaties and conventions respecting [trademarks, trade names, and] unfair competition [entered into between the United States and foreign nations]'" is inapposite. Resp. Br. 29. Static Control does not identify any treaty obligation that addresses prudential standing. The obvious construction of this purpose statement is that it relates not to Section 43(a) but to Section 44 of the Act (15 U.S.C. § 1126) entitled "International Conventions" and

which addresses the implementation of treaty obligations.

5. Thus, Static Control ignores the germane language in Section 45 and denies the common law background of the Lanham Act, instead focusing on the "any person" language in Section 43(a). Resp. Br. 17. However, as this Court has recognized in the context of the Racketeer Influenced and Corrupt Organizations Act ("RICO") and the Clayton Act, the use of the phrase "any person" cannot be understood in isolation apart from the purpose of the law in question. *See Holmes*, 503 U.S. at 265-66 (applying *AGC* criteria to RICO); *AGC*, 459 U.S. at 529-30. As this Court has held "[i]t is the 'cardinal principle of statutory construction' ... [that] it is our duty 'to give effect, if possible, to every clause and word of a statute' ... rather than to emasculate an entire section.'" *Bennett*, 520 U.S. at 173 (citations omitted). Static Control's proposed rule would violate this principle and "emasculate" Section 45's statement of intent.

6. Finally, the zone of interests test as proposed by Static Control is really no test at all; it is simply a fact-specific application that does nothing to resolve the question in this appeal. This is evident in how Static Control tries to apply the test. Static Control first argues that it is within the zone of interests for alleged statements by Lexmark that reference Static Control's products.[2] Resp. Br. 26. Static Control then asserts that it also falls within the zone of interests to sue over Lexmark's statements to Lexmark's customers about

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[2] *See infra* Section II.

Lexmark's own products, apparently because Static Control alleges injury from those statements as well. Resp. Br. 27. However, Static Control offers no principled basis for these assertions. Static Control just recites the allegations of this case in lieu of a test. Indeed, Static Control offers no prudential limitation on Section 43(a) lawsuits and does nothing more than fall back to mere Article III standing, just as the reasonable interest test does.

II. A RULE GRANTING STANDING TO ALLEGED TARGETS IN ALL CASES IS CONTRARY TO THIS COURT'S PRUDENTIAL STANDING JURISPRUDENCE.

In addition to arguing for an exceedingly broad zone of interests test, Static Control urges the Court to hold that in all cases "companies whose products are specifically targeted by false advertising have standing to sue." Resp. Br. 26. This proposed target rule is contrary to sound principles of prudential standing as previously announced by this Court and, like the zone of interests test, has not been adopted as a test by any circuit.

1. This Court specifically rejected the "target area" test in *AGC*, explaining that reliance on "labels may lead to contradictory and inconsistent results." 459 U.S. at 537 n.33. The plaintiff union in *AGC* alleged that they were targets of the defendants' anticompetitive conduct. *Id.* at 522. Nevertheless, the union did not have standing because, among other

things, there were other, better suited plaintiffs to vindicate the harm—the individual union contractors who were denied contracts. *See AGC*, 459 U.S. at 541-42.

The same is true here. Static Control argues that it was the target of Lexmark's advertisements, but, when relevant prudential criteria are considered, it is not a proper plaintiff. Like *AGC*, there is a better suited class of plaintiffs to pursue the action—the remanufacturers, one of whom did file a Lanham Act claim against Lexmark in this lawsuit. Pet. App. 81-82.

AGC identifies yet another problem with Static Control's proposal. While recognizing that the union's "complaint does allege ... harm to the Union and further alleges that the defendants intended to cause that harm," this Court held that "an allegation of improper motive ... is not a panacea that will enable any complaint to withstand a motion to dismiss." 459 U.S. at 537. Because a target analysis necessarily looks to the intentions of the defendant, it is even more of a misfit in the context of the Lanham Act where there is no intent element.

2. Just as with claims under the Sherman and Clayton Acts, the mere allegation that the plaintiff is a target of defendant's conduct is not a talisman that magically confers standing. In any number of circumstances, a target allegation could be made where prudential principles would nonetheless counsel against standing under the Lanham Act.

For example, in *Nevyas v. Morgan*, 309 F. Supp. 2d 673, 676 (E.D. Pa. 2004), a dissatisfied patient created

a website on which he allegedly made defamatory statements about his doctors. The doctors, who were the targets of the false advertising, filed a Lanham Act claim. *Id.* at 680. The district court correctly dismissed the doctors' false advertising claim because "nowhere in the complaint is it alleged ... that the defendants ... are commercial competitors with the plaintiffs," and the complaint did not suggest that plaintiffs' business was diverted to the defendants. *Id.* Thus, while the plaintiffs alleged "an injury to their commercial interests," it is not the kind of injury Congress intended to address in Section 43(a).[3] *Id.* The same is true here.

3. Rejecting Static Control's target rule would not leave an allegedly targeted party without a remedy. Aside from the Lanham Act, there are state law actions that may be available to a plaintiff who can satisfy the merits, including: fraud and deceit claims, defamation claims, interference claims, and claims under laws like the Uniform Deceptive Trade Practices Act. There is also the possibility of federally prosecuted actions under the Federal Trade Commission Act. *See* 15 U.S.C. §§ 45, 52.

Nor does the rejection of a per se rule granting standing to alleged targets mean that in an appropriate case a target could never have standing under Section

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[3] *See also MCW, Inc. v. Badbusinessbureau.com, L.L.C.*, 2004 U.S. Dist. LEXIS 6678, 43-44 (N.D. Tex. Apr. 19, 2004) (plaintiff lacked standing under the *AGC* test for a Lanham Act claim involving disparaging remarks on a website because, among other things, plaintiff was not in competition with defendant and did not establish that defendant's reputation would be bolstered by the statements).

43(a). Rather, standing in all cases should be evaluated using the same prudential considerations identified by this Court in *AGC*.

4. In any event, Static Control's proposed target test is irrelevant in this case because Static Control's counterclaim does not allege that it was the target of the alleged false statements. Rather, Static Control alleged communications that were not only addressed to third-parties but, even according to Static Control, were intended to affect the actions of only those third-parties.

Static Control's counterclaim identifies the ultimate targets as the remanufacturers and the consumers of Lexmark's cartridges:

> Because Lexmark sells virtually all its toner cartridges with the Prebate label, its program has the *intended effect* of excluding competition and increasing prices to consumers in the relevant markets by restricting the supply of Lexmark toner cartridges.

Countercl. ¶35, J.A. 29 (emphasis added).

In particular, Static Control first alleged that Lexmark mislead its own customers in connection with the Prebate program. *Id.* at ¶¶33, 37-39, J.A. 28-31. Static Control is not even mentioned in these statements and cannot therefore be the target. Under no test—however expansive—should Static Control have prudential standing to sue for these statements to Lexmark's customers.

Second, Static Control alleged that Lexmark sent "letters to most of the companies in the toner cartridge remanufacturing business" and threatened those parties with legal action claiming that "remanufacturing Prebate-labeled toner cartridges violates Lexmark's intellectual property rights and that Prebate toner cartridges could not be legally remanufactured" at all. *Id.* at ¶35, J.A. 29. In these communications, Lexmark allegedly "informed remanufacturers that if they used [Static Control's] products to remanufacture Lexmark toner cartridges" such conduct would "violate the law." *Id.* The gravamen of these alleged letters was that the remanufacturers' conduct of "remanufacturing Prebate-labeled toner cartridges" was illegal. And the parties who were the targets of these communications are those remanufacturers who were threatened with legal action. Just because Static Control is mentioned in a letter does not transform it into the target of the letter. *See Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387, 404 (6th Cir. 2012) ("[T]he intended targets of Lexmark's Prebate Program were the end users and the remanufacturers, not Static Control.").

5. Static Control also argues that the 1988 amendment to Section 43(a) confirming that representations about another's goods are potentially actionable under the Lanham Act compels adoption of its proposed target test. Resp. Br. 25. This argument confuses a question regarding the elements of a claim under the Act—namely the kinds of conduct that are actionable—with the issue of who has prudential standing to pursue those claims. There is no indication that the amendment altered prudential standing under the Act. In fact, the legislative history accompanying

the 1988 amendments indicates just the opposite: Congress intended "that standing under Section 43(a) ... should continue to be decided on a case-by-case basis[.]" S. Rep. No. 100-515, 100th Cong., 2d Sess. (May 12, 1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5604.

III. THE AMICI'S DEFENSES OF THE REASONABLE INTEREST TEST DEMONSTRATE ITS DEFICIENCIES.

Three *amici curiae* briefs argue in different degrees the merits of the reasonable interest test. None of them, however, argue that the Sixth Circuit's broad application of that test should be adopted.[4] The reasonable interest test articulated by the Second Circuit confers standing on plaintiffs demonstrating "(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising." *Famous Horse, Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d. Cir. 2010). The breadth of these two prongs, standing alone, could confer standing on plaintiffs having no competitive or

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[4] *See, e.g.*, American Intellectual Property Law Association *Amicus Curiae* Brief ("AIPLA Br.") 17-18 n.4 ("To the extent the two circuits [Second and Sixth] have taken different approaches, however, *amicus* supports the Second Circuit's application of the reasonable interest test.").

commercial injury, including consumers.[5] This is contrary to the plain text of Section 45.

The *amici*'s defenses of the reasonable interest test demonstrate its inadequacy because none of the *amici* claims that a straightforward application of the test comports with prudential standing; instead each *amicus* layers the test with additional limitations. AIPLA appends a "commercial interest" requirement to prevent consumer standing and a heightened showing of causation of injury for non-competitors. AIPLA Br. 15, 17-18. The Law Professors require a more substantial showing of causation and injury for parties not obviously in competition. Law Professors' *Amicus Curiae* Brief ("Law Professors Br.") 19. The International Trademark Association ("INTA") adds a "commercial interests" prerequisite to exclude consumer standing. INTA's *Amicus Curiae* Brief ("INTA Br.") 26-27. None of these additional limitations emanate from the two prongs of the reasonable interest test, proving that the broad test is susceptible to interpretations that deviate from its plain language, which increases the likelihood of inconsistent application.

The paradoxical explanations of why the reasonable interest test comports with the Lanham Act further evidences the amorphous nature of the test. For example, AIPLA argues that the "inability of

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[5] As noted in Lexmark's Brief on the Merits, the one prudential standing limitation on which circuits agree is that consumers lack standing to bring a Lanham Act false advertising suit. Pet. Br. 32 n.6.

consumers" to bring false advertising claims under the Lanham Act "means that a broad set of commercial entities must have standing to ensure that they can serve as the 'vicarious avenger' of consumer rights." AIPLA Br. 13. Conversely, the Law Professors argue that the Lanham Act "is deliberately designed to protect individual businesses." Law Professors Br. 2.[6] A test that can be construed to represent two widely varying interpretations of the purpose of false advertising suits is no test at all.

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[6] The Law Professors argue for the reasonable interest and competitive injury tests by discounting the significance of defending false advertising suits by comparing the legal fees in three hand-picked antitrust cases with the 2011 median cost of trademark infringement suits litigated to conclusion when more than $25 million is at risk. Law Professors Br. 13-14. It is a fallacy to compare legal fees in three selectively chosen antitrust cases with the median fees in trademark infringement suits (not false advertising suits). Research demonstrates that false advertising damage awards are increasing. From 1993 to 2003, total compensatory damages for false advertising claims averaged approximately $870,000, with a median award of approximately $64,000. Between 2004 and 2008, the average award increased to roughly $2.9 million, with a median award of approximately $774,000. J. Shawn McGrath & Kathleen M. Kedrowski, *Damages Trends in Patent and Lanham Act Cases*, Americanbar.org (2010), http://webcache.googleusercontent.com/search?q=cache:ICBvQbhtGfYJ:apps.americanbar.org/litigation/committees/corporate/docs/2010-cle-materials/05-hot-topics-ip-remedies-injunctions/05b-damages-trends-ga-bar.pdf+&cd=1&hl=en&ct=clnk&gl=us. The Law Professors' preliminary data analyzing the results when standing was adjudicated in circuit courts demonstrates that circuits applying the reasonable interest test find that plaintiffs have standing more often than do circuits applying the *AGC* and categorical tests. Law Professors Br. 15-17.

IV. *AGC* PROVIDES THE APPROPRIATE TEST FOR CLAIMS UNDER SECTION 43(a).

A. The *AGC* test gives effect to background common law criteria.

1. In *Conte Brothers*, the Third Circuit concluded that the Lanham Act codified the common law of unfair competition and that the Sherman Act and *AGC* are fair analogues. 165 F.3d at 226-30. Static Control attacks that conclusion and Lexmark's reiteration of it, as "unsupported" and "wrong on all counts." Resp. Br. 38, 42. Static Control argues that "[i]n stark contrast to the Sherman Act, which '[d]id not announce a new principle of law,' ... Lanham Act Section 43(a) expressly announced a new principle of law." Resp. Br. 38. This is simply not so. Static Control's argument is contradicted by the legislative history, which demonstrates that when enacting the Lanham Act (just as with the Sherman and Clayton Acts) Congress intended to advance existing "principles of law."

After stating that the Lanham Act sought to codify the "well-established rule of law protecting both the public and the trademark owner," the 1946 Senate Report explained that: "Unfair competition is the genus of which trade-mark infringement is one of the species, 'the law of trade-marks is but a part of the broader law of unfair competition.'" Sen. Rep. No. 1333, 79th Cong., 2d Sess. (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1274-75 (quoting *United Drug Co. v. Rectanus*, 248 U.S. 90, 97 (1918)). And the same is true of false advertising: it is a species of unfair competition. The

Report elaborated on the wrong that this body of law sought to redress:

> All trade-mark cases are cases of unfair competition and involve the same legal wrong.... *The essence of the wrong consists in the sale of the goods of one manufacturer or vendor for those of another.* This essential element is the same in trade-mark cases as in cases of unfair competition unaccompanied with trade-mark infringement.

Id. at 1275 (quoting *Hanover Star Milling Co. v. Melcalf*, 240 U.S. 403, 412 (1916)) (emphasis added).

This history establishes that instead of announcing a new principle of law, the "essential element" underlying the Lanham Act is the same principle of law underlying the pre-existing common law. As with the Sherman Act, the legislative history of the Lanham Act makes "it perfectly clear that [Congress] expected the courts to give shape to the statute's broad mandate by drawing on common-law tradition." *AGC*, 459 U.S. at 531-32.

Static Control's argument that the Lanham Act "announced a new principle of law" in a manner unlike the Sherman Act, not only gets the history of the Lanham Act wrong, it also misrepresents the substantive common law background of the Sherman Act. While "[t]here was no question that the common law had at various times condemned monopolies, or more often, behavior which was supposed to be monopolistic[,] ... it was doubtful whether the common law was powerful enough in 1888 to destroy the

monopolies of that time." William L. Letwin, *Congress and the Sherman Antitrust Law: 1887-1890*, 23 U. Chi. L. Rev. 221, 241 (Winter, 1956). And just as with Section 43(a)'s common law antecedents, standing under common law antitrust actions was quite limited. For example, while the common law arguably prohibited contracts in restraint of trade, "such contracts could be brought before the courts only by parties to them, [therefore,] [i]f trusts were to be attacked by this means either they themselves or those who did business with them would have to initiate the action, and there were few instances of this kind." *Id.* at 242-43.

The point being that the common law claims that predated both the Sherman and Lanham Acts were intended to address particular anticompetitive harms. Each act provides a framework for addressing those harms while retaining the same essential purposes as their common law antecedents, and standing under each act should be informed by that common law.

2. Furthermore, just as with the antitrust statutes, when ascertaining the scope of Section 43(a), this Court should consider not only the statute's specific unfair competition "common-law antecedents," but also "the [more general common law] contemporary legal context in which Congress acted[.]" *AGC*, 459 U.S. at 532. In the common law, "a number of judge-made rules circumscribed the availability of damages recoveries in both tort and contract litigation—doctrines such as foreseeability and proximate cause, directness of injury, certainty of damages, and privity of contract." *Id.* at 532-33. This applies both to the antitrust statutes and the Lanham Act. For example, the

common law's rigorous proximate cause requirement gave rise to the so-called "single source" rule that significantly limited the scope of unfair competition claims. *See* 5 McCarthy, *McCarthy on Trademarks and Unfair Competition* § 27:4 (4th ed. 2013).

Legislating against the backdrop of these rules, Congress assumed that Lanham Act claims "would be subject to constraints comparable to well-accepted common-law rules applied in comparable litigation." *AGC*, 459 U.S. at 533. *See* also *Holmes*, 503 U.S. at 287 (Scalia, J., concurring in judgment)("One of the usual elements of statutory standing is proximate causality."). The *AGC* factors effectively embody these considerations.

3. The similar histories of the Lanham Act and the antitrust laws warrant a similar application of these prudential criteria. In fact, the most significant distinction between the statutes relevant to standing is the inclusion of a specific statement of purpose in Section 45 of the Lanham Act, which has no parallel in the antitrust statutes. This distinction suggests that to the extent the test for prudential standing under the Lanham Act should differ from the one in antitrust claims, it should be more narrow—not less. This accounts for the universal exclusion of consumer claims under Section 43(a). *See* Pet. Br. 32 n.6.

B. It is logical to apply similar prudential standing tests to claims of anticompetitive conduct under the Lanham Act and antitrust laws.

1. That the Lanham and Sherman Acts address related harms to competition, and often arise from the same factual allegations (as in this case), are additional reasons to treat standing under each similarly. *See Gilbert / Robinson, Inc. v. Carrie Beverage-Mo., Inc.*, 989 F.2d 985, 991 (8th Cir. 1993) ("Like the antitrust laws, the Lanham Act seeks to promote a fair and efficient market place[.]"). Under the heading "Trade-marks Defeat Monopoly by Stimulating Competition," the Lanham Act's legislative history states that one of its purposes is to "foster fair competition." H.R. Rep. No. 219, 79th Cong., 1st Sess. at 3 (1945). While it is frequently observed that the antitrust laws "were enacted for 'the protection of competition, not competitors,'" just as with Lanham Act claims, it is competitors who are frequently the plaintiffs with the motivation and resources to vindicate the alleged harm. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 488 (1977) (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 320 (1962)).

2. Additionally, the similarity of relief under both Acts—injunctive relief, the potential award of treble damages, and attorneys' fees—augments the case for applying similar constraints on standing to each. *Compare* 15 U.S.C. §§ 15, 26 *with* 15 U.S.C. §§ 1116, 1117.

The Law Professors attempt to distinguish Lanham Act false advertising cases from antitrust cases by

making the unsupported assertion that the standard remedy in false advertising cases is an injunction and that monetary damages are an "occasional" remedy; an assertion contradicted by the facts of this case. Law Professors Br. 14. Here, Static Control sought antitrust damages of approximately $20 million, while submitting expert evidence valuing its Lanham Act claim at "approximately $1 billion." Countercl., J.A. 51; 04RE529, Motion for Summary Judgment on the Remanufacturers' Counterclaims, Exhibit 8, Expert Report p. 42.

C. Competition is an important, but not exclusive, consideration under the *AGC* test.

1. Static Control mischaracterizes Lexmark's argument, and the *AGC* test, when it states that Lexmark "asks the Court to adopt a categorical test explicitly requiring competition narrowly defined as an element of standing." Resp. Br. 30. While competition is determinative in the categorical test applied by three circuits[7] and advocated in the alternative by Lexmark, in the *AGC* test the plaintiff's status as a competitor is only one component of the first criterion. There are four other criteria that courts consider.

As it relates to competition, the first *AGC* criterion requires courts to consider whether the plaintiff's

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[7] *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 873 (10th Cir. 1995); *accord L.S. Heath & Son v. AT&T Info. Sys.*, 9 F.3d 561, 575 (7th Cir. 1993); *Halicki v. United Artists Commc'ns, Inc.*, 812 F.2d 1213, 1214 (9th Cir. 1987).

alleged injury is of the type Congress sought to redress. As explained in *Conte Brothers*, this inquiry encompasses two related elements: (1) whether the plaintiff is a competitor and (2) whether the advertisement is one that diverts sales or goodwill from the plaintiff to the defendant. 165 F.3d at 234. The alleged advertisements in this case, on their face, demonstrate that neither element is met.

Thus, although it would be rare in false advertising claims, "there may be circumstances in which a non-competitor may have standing to sue" under the *AGC* test if other criteria weigh in favor of it. *Id.*

2. INTA also criticizes the weight given to competition under the *AGC* test, arguing that the Restatement (Third) of Unfair Competition § 1 (1995) defines "unfair competition" more broadly than the diversion of sales to a direct competitor and that "[n]othing in the text or legislative history of the Lanham Act indicates that Congress intended to alter the common law understanding of 'unfair competition' to only include actions by direct competitors." INTA Br. 15-16. The Restatement (First) of Torts § 761 (1939), however, published seven years before the Lanham Act was enacted, limited false advertising claims to "[o]ne who diverts trade from a competitor" by engaging in fraudulent representations. INTA's reliance on the Restatement (Third) of Unfair Competition, published in 1995 and focusing primarily on state consumer protection acts, does not reflect the common law of false advertising in 1946.

3. While competition is not the exclusive consideration under the *AGC* test, the fact that Static

Control is not a competitor of Lexmark cuts against standing in this case. Static Control unequivocally states on page 6 of its brief that "Lexmark's only competition for replacement cartridges comes from entities known as remanufacturers." Static Control's counterclaim is consistent with this statement and makes clear that the role it plays is that of a supplier to Lexmark's alleged aftermarket competitors—the remanufacturers. *See, e.g.*, Countercl., ¶¶31, 33, 35, J.A. 28-29. Accordingly, both the district court and the court of appeals correctly found that Lexmark and Static Control are not competitors. Pet. App. 22-23, 36, 78-79.

CONCLUSION

For the foregoing reasons, the decision of the Court of Appeals should be reversed and Static Control's Lanham Act counterclaim should be dismissed.

Respectfully submitted,

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AMICUS CURIAE BRIEF

No. 12-873

In The
Supreme Court of the United States

LEXMARK INTERNATIONAL, INC.,

Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Sixth Circuit

BRIEF OF THE AMERICAN ANTITRUST INSTITUTE AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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TABLE OF CONTENTS

	Page
TABLE OF AUTHORITIES	iii
INTEREST OF *AMICUS CURIAE*	1
SUMMARY OF ARGUMENT	1
ARGUMENT	5
I. THE LANHAM ACT PLAYS A CENTRAL ROLE IN BROADLY DETERRING ANTI-COMPETITIVE DECEPTION	5
A. Deception Can Have Significant Anti-competitive Effects	6
B. Other Competition Laws Alone Cannot Adequately Police Deceptive Conduct in the Marketplace	9
II. THE COURT SHOULD ADOPT THE ZONE-OF-INTERESTS TEST TO GOVERN PRUDENTIAL STANDING UNDER SECTION 43(A) OF THE LANHAM ACT	12
III. IF THE COURT CHOOSES FROM AMONG THE THREE TESTS DESCRIBED IN THE QUESTION PRESENTED, IT SHOULD ADOPT THE REASONABLE INTEREST TEST	16
A. The Reasonable Interest Test Better Effectuates Congressional Intent	16
B. The Categorical Test Would Fail to Deter Anticompetitive Deception Adequately	21

TABLE OF CONTENTS – Continued

Page

C. The AGC Test Has Weakened Private Enforcement of the Antitrust Laws and Would Fail to Deter Anticompetitive Deception Adequately 26

CONCLUSION 32

TABLE OF AUTHORITIES

Page

CASES

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Page

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Page

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Page

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STATUTES

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7 U.S.C. § 2305(c) 14

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Page

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Page

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Page

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Page

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INTEREST OF *AMICUS CURIAE*

The American Antitrust Institute ("AAI") is an independent and non-profit education, research, and advocacy organization devoted to advancing the role of competition in the economy, protecting consumers, and sustaining the vitality of the antitrust laws.[1] These goals of U.S. competition policy could be seriously undermined if the Court adopts an unduly restrictive prudential standing test for claims under Section 43(a) of the Lanham Act, which plays a central role in ensuring the dissemination of accurate information in the market and thereby protecting consumers, competitors, and the competitive process.

SUMMARY OF ARGUMENT

The prudential standing test for claims under Section 43(a) of the Lanham Act must ensure adequate

[1] The parties have lodged blanket consents to the filing of *amicus* briefs with the clerk. No person other than *amicus curiae* or its counsel authored this brief in whole or in part or made a monetary contribution intended to fund its preparation or submission. The AAI is managed by its Board of Directors, with the guidance of an Advisory Board that consists of approximately 125 prominent antitrust lawyers, law professors, economists, and business leaders. The AAI's Board of Directors has approved this filing for the AAI; individual views of members of the Board of Directors or Advisory Board may differ from the AAI's positions. Certain members of the Advisory Board are attorneys at Constantine Cannon LLP, which is counsel for respondent. They played no role in the Directors' deliberations or the preparation or submission of the brief.

deterrence of deception. False and misleading statements can inflict serious harm on the marketplace and distort the competitive process in myriad ways, without having any offsetting salutary effects. At the same time, neither public enforcement of state and federal consumer protection statutes nor public and private enforcement of the antitrust laws alone can adequately police deception. The Federal Trade Commission and state attorneys general can remedy some deceptive conduct under their consumer protection authority, but they face legal obstacles and resource constraints. Likewise, public and private plaintiffs can challenge deception under the antitrust laws, but they face high standards of proof and can realistically reach only a subset of deceptive conduct. Because of these practical limitations, the Lanham Act plays an essential role in policing deceptive behavior by market participants.

The Court should adopt the zone-of-interests test to govern prudential standing under Section 43(a) of the Lanham Act, which provides a cause of action to "any person who believes that he or she is or is likely to be damaged" by false advertising. 15 U.S.C. § 1125(a). The various circuit courts currently apply a categorical test, a multi-factor *Associated General Contractors* (AGC) test, or a reasonable interest test to claims under Section 43(a). The Court, however, has held that the zone-of-interests test is the ordinary test for statutory standing and that departures from it must be rooted in statutory policy. The core statutory policy of the Lanham Act is to broadly

deter anticompetitive deception in the marketplace. Consistent with this policy and the plain meaning of the statutory text, the zone-of-interests test would bar only those false advertising claims that are marginally related to or inconsistent with the Lanham Act's purpose. *See Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians v. Patchak*, 132 S. Ct. 2199, 2210 (2012).

If the Court should depart from the zone-of-interests test and choose from among the tests described in the Question Presented, it should adopt the reasonable interest test. Of the three tests, the reasonable interest test best effectuates Lanham Act statutory policy. Like the zone-of-interests test, it promotes the policing of false and misleading statements and reduces the risk that deceptive conduct – harmful to consumers, competitors, and competition – will go unchallenged. Fears that the reasonable interest test will lead to a flood of litigation or deter truthful advertising are, at the very least, overstated, and they have not been borne out in jurisdictions that apply the reasonable interest test. The Lanham Act prohibits false or misleading statements, not advertising generally, and distinguishing between truthful and false statements is not particularly complex. Moreover, remedies under the Lanham Act are limited; successful plaintiffs ordinarily obtain injunctions prohibiting only *future* deception by the defendant. The fear of chilling effects is also undercut by the sophistication of the modern advertising enterprise.

The Court should reject the categorical and AGC tests. The categorical test, which limits standing to direct competitors of the defendant, would likely result in underdeterrence of anticompetitive behavior. Competitors sometimes may not have the incentive to challenge the deception of rivals, either because they benefit from the deception or because the economically rational response is to emulate the deception. As a result, if this test were adopted, some of the most pernicious forms of deception would likely go unchallenged. Insofar as the categorical test requires courts to define relevant markets, it would not be simple to apply; market definition has proven to be a costly, time-consuming, and uncertain process in antitrust litigation. The AGC test, applicable to claims for damages under the Clayton Act, has been problematic in the antitrust context and should not be applied to a distinct statutory scheme with facially more limited injury requirements and narrower remedies. The test features duplicative criteria that tend to weigh against standing and often requires the resolution of complex issues of fact at the pleading stage. It has weakened the enforcement of the antitrust laws in the name of identifying the "optimal" plaintiff, and it is particularly inappropriate for Lanham Act claims.

ARGUMENT

I. THE LANHAM ACT PLAYS A CENTRAL ROLE IN BROADLY DETERRING ANTI-COMPETITIVE DECEPTION

A proper prudential standing test for Section 43(a) claims must effectuate the Lanham Act's core policy goal, which is to deter anticompetitive deception. By its plain text, "the intent" of the Lanham Act is to "mak[e] actionable the deceptive and misleading use of marks in [interstate] commerce" and "to prevent fraud and deception in such commerce." 15 U.S.C. § 1127.[2] Section 43(a), the unfair competition provision, prohibits any "false designation of origin," "false or misleading description of fact," or "false or misleading representation of fact" that is "likely . . . to deceive" or that "misrepresents" in connection with goods or services in commercial advertising or promotion. 15 U.S.C. § 1125(a). The text gives a cause of action to "any person who believes that he or she is or is likely to be damaged" by such conduct. *Id.*

Consistent with the text, the legislative history of Section 43(a), including the Trademark Law Revision

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[2] In addition to the broad statement of intent in 15 U.S.C. § 1127, the Act's individual provisions reflect a strong emphasis on deception. *See, e.g.*, *id.* §§ 1114(a), 1127 ("colorable imitations" "likely . . . to deceive"); *id.* § 1114(a) (reproductions, counterfeits and copies "likely . . . to deceive"); *id.* § 1125(b) (bad faith provision of "misleading false contact information"); *id.* § 1120 (procurement of a registered mark "by a false or fraudulent declaration or representation" or "by any false means").

Act of 1988 (TLRA), suggests a clear congressional preference for broad prohibitions on anticompetitive deception in the false advertising context. *See, e.g.*, S. Rep. No. 100-515, at 1 (1988) (describing purpose as improving "the law's protection of the public from . . . deception"). The TLRA intentionally expanded the remedial provisions in Section 43(a) that punish deception. *See id.* at 38 (expanded remedies will serve the "public policy of deterring acts of unfair competition").[3]

A. Deception Can Have Significant Anticompetitive Effects

Congressional concern about anticompetitive deception is warranted because deceptive practices can have significant anticompetitive effects. Deception in commercial advertising or promotion can harm competition, consumers, and competitors by raising prices, reducing output, deterring entry, and

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[3] Apart from the Senate report, individual sponsors of the TLRA expressed a preference for strong protections and expansive applications to protect against false advertising. *See* 133 Cong. Rec. S 16546 (daily ed. Nov. 19, 1987) (statement of Sen. DeConcini) (Trademark Law Revision Act of 1987 would "strengthen[ ]" 43(a) by broadening remedies and scope of actionable conduct); *id.* (1987 bill would conform to "expanded scope of protection"); *id.* (intent was for courts to continue giving 43(a) same "innovative interpretation"); 134 Cong. Rec. H 10411-02 (daily ed. Oct. 19, 1988) (statement of Rep. Kastenmeier) (applauding Act's authorization of expanded remedies not previously available in Section 43(a) cases).

decreasing product quality and consumer choice. Compounding the problem, deception is a low-cost and financially rational tactic that creates no salutary competitive benefits to offset its anticompetitive harm. Moreover, deceptive harm can be particularly injurious to consumer welfare, because it often inhibits both dynamic and allocative efficiency.

When a firm successfully deceives, it is unjustly enriched at the expense of other market participants. Deception injures consumers by inducing mistaken demand for inferior or unneeded products, raising search costs, and sometimes creating "lemon" markets where lower-quality goods or services drive out higher-quality goods. Deception also injures competitors by raising their costs (whether to differentiate their products from the deceiver's or to respond to the deceptive statements), raising entry barriers, or by driving them out of the market. Moreover, deception injures competition itself, because it distorts markets and misallocates resources. *See* Maurice E. Stucke, *When a Monopolist Deceives*, 76 Antitrust L.J. 823, 824-25 (2010); Mark R. Patterson, *Coercion, Deception, and Other Demand-Increasing Practices in Antitrust Law*, 66 Antitrust L.J. 1, 12-16 (1997); Joseph P. Bauer, *A Federal Law of Unfair Competition: What Should Be the Reach of Section 43(a) of the Lanham Act*, 31 UCLA L. Rev. 671, 672-73 (1983).

For paying this price, society receives nothing in return. Deception is a form of "cheap exclusion." It is not merely a low-cost exclusionary strategy but "a particular kind of low-cost exclusionary strategy,

namely, one that does not raise any cognizable efficiency claims; that is, 'cheap' in that it has little positive value." Susan A. Creighton et al., *Cheap Exclusion*, 72 Antitrust L.J. 975, 977 (2005). *See also* Stucke, *supra*, at 825 ("Deception lacks any redeeming economic qualities or cognizable efficiency justifications"); Harry S. Gerla, *Federal Antitrust Law and the Flow of Consumer Information*, 42 Syracuse L. Rev. 1029, 1030 (1991) ("False or misleading information is deadweight economic loss, causing injury without any offsetting economic benefit. Supplying such information to consumers also offends basic societal moral values."); Restatement (Second) of Torts § 552 cmt. a (1977) ("[N]o interest of society is served by promoting the flow of information not genuinely believed by its maker to be true."); Arthur C. Pigou, The Economics of Welfare pt. II ch. IX § 17 (4th ed. 1932) ("As a rule . . . the social net product of any dose of resources invested in a deceptive activity is negative. Consequently, . . . absolute prohibition of the activity is required.").

Worse yet, deception can be an effective predatory strategy to thwart new and innovative products, which can cause comparatively greater harm to consumer welfare by impeding dynamic efficiency. Disseminating false information about innovative, new and complex products "is particularly effective" because "disparaging claims about the innovation will be much more credible than claims about products which the consumer has used in the past." Gerla, *supra*, at 1068. Moreover, "[t]echnical, scientific, or

other professional fields are precisely the areas in which false information (particularly derogatory information) is most likely to be believed by consumers." *Id.* at 1089. *See also* Robert Prentice, *Vaporware: Imaginary High-Tech Products and Real Antitrust Liability in a Post-Chicago World*, 57 Ohio St. L.J. 1163 (1996) (describing market-freezing effects and harm to innovation caused by fraudulent announcements of new software programs not in fact forthcoming, which discourage consumers from trying new products).

B. Other Competition Laws Alone Cannot Adequately Police Deceptive Conduct in the Marketplace

A prudential standing test for Section 43(a) claims should recognize not only that deception is unambiguously harmful, but that private actions under the Lanham Act play a central role in deterring that harm. First, public enforcement can play only a limited role. Although the Federal Trade Commission ("FTC") polices deceptive acts and practices pursuant to Sections 5 and 12 of the Federal Trade Commission Act, and every state has an unfair and deceptive acts and practices ("UDAP") statute, the FTC and the states do not have sufficient resources to police commercial deception comprehensively. "The FTC is not required to prosecute every potential false advertising claim it identifies," *Sandoz Pharms. Corp. v. Richardson-Vicks, Inc.*, 902 F.2d 222, 229 n.8 (3d Cir. 1990), and it "will essentially never get involved if there is a

specific target of negative speech that can take care of itself (sometimes with a Lanham Act lawsuit)." Rebecca Tushnet, *Fighting Freestyle: The First Amendment, Fairness, and Corporate Reputation*, 50 B.C. L. Rev. 1457, 1472 (2009); *see also* Federal Trade Commission, FTC Policy Statement on Deception (Oct. 14, 1983), *available at* http://www.ftc.gov/bcp/policystmt/ad-decept.htm (distinguishing among potentially deceptive practices the agency is more and less likely to pursue).

Likewise, "in almost all states significant gaps or weaknesses undermine the promise of UDAP protections for consumers." Carolyn L. Carter, National Consumer Law Center, Consumer Protection in the States: A 50-State Report on Unfair and Deceptive Acts and Practices Statutes 3 (Feb. 2009), *available at* http://www.nclc.org/images/pdf/udap/report_50_states.pdf.[4] Private enforcement under the Lanham Act is, therefore, a necessary complement to public enforcement. *See also* A. Mitchell Polinsky & Steven Shavell, *The Theory of Public Enforcement of Law*, *in* I Handbook of Law & Economics 403, 406 (A. Mitchell Polinsky & Steven Shavell eds. 2007) (noting that "allowing private suits for harm will motivate victims

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[4] The National Consumer Law Center's report on state enforcement concluded that "[t]he holes are glaring. Legislation or court decisions in dozens of states have narrowed the scope of UDAP laws or granted sweeping exemptions to entire industries. Other states have placed substantial legal obstacles in the path of officials charged with UDAP enforcement, or imposed ceilings as low as $1,000 on civil penalties." Carolyn L. Carter, 50-State Report, *supra* at 3.

to initiate legal action and thus will harness the information they have for purposes of law enforcement").

Second, the antitrust laws can reach only a relatively small subset of deceptive behavior. Causes of action under the Sherman Act, for example, arise only for unreasonable restraints of trade, which requires the element of agreement, *Am. Needle, Inc. v. Nat'l Football League*, 130 S. Ct. 2201, 2208 (2010), and for monopolization, which requires the element of monopoly power, *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966). These and other limitations on Sherman Act claims often lead courts to dismiss antitrust claims involving deception, if they are brought at all. *See, e.g., Rambus, Inc. v. FTC*, 522 F.3d 456 (D.C. Cir. 2008); *Am. Professional Testing Svc., Inc. v. Harcourt Brace Jovanovich Legal & Professional Publications, Inc.*, 108 F.3d 114 (9th Cir. 1997); *Schachar v. Am. Academy of Opthalmology*, 870 F.2d 397 (7th Cir. 1989). *But see Am. Soc'y of Mech. Eng'rs v. Hydrolevel*, 456 U.S. 556 (1982); *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). Conversely, the Lanham Act "mak[es] actionable the deceptive and misleading use of marks in [interstate] commerce," 15 U.S.C. § 1127, without regard to concepts like antitrust injury, agreement, or market power.

II. THE COURT SHOULD ADOPT THE ZONE-OF-INTERESTS TEST TO GOVERN PRUDENTIAL STANDING UNDER SECTION 43(A) OF THE LANHAM ACT

The purpose and plain language of the Lanham Act, as well as the Court's prudential standing precedent, support adoption of the zone-of-interests test. The Court has generally formulated "the applicable prudential standing requirement" as "whether the interest sought to be protected by the complainant is arguably within the zone of interests to be protected or regulated by the statute." *Bennett v. Spear*, 520 U.S. 154, 163 (1997) (quoting *Association of Data Processing Service Orgs., Inc. v. Camp*, 397 U.S. 150, 153 (1970)) (zone-of-interests test is a "prudential standing requirement[ ] of general application"). The zone-of-interests test enables suits "by any plaintiff with an interest 'arguably [sought] to be protected by the statute[ ],' *National Credit Union Admin. v. First Nat. Bank & Trust Co.*, 522 U.S. 479, 495 (1998) (internal quotation marks omitted), while excluding plaintiffs who might technically be injured in an Article III sense but whose interests are unrelated to the statutory prohibitions." *Thompson v. N. Am. Stainless, LP*, 131 S. Ct. 863, 870 (2011).

Ordinarily, the zone-of-interests test applies to statutory standing inquiries without limitation, but the "zone" varies according to the provisions of the law at issue. *Bennett*, 520 U.S. at 163. Although the test is more liberally applied in suits under the Administrative Procedure Act (APA), which has

"generous review provisions," *Clarke v. Sec. Indus. Ass'n*, 479 U.S. 388, 400, n.16 (1987), the test is expressly not limited to APA suits. *Bennett*, 520 U.S. at 163 (citing *Dennis v. Higgins*, 498 U.S. 439, 449 (1991)). Thus, the Court has held that the zone-of-interests test applies to "a person claiming to be aggrieved" by an unlawful employment practice under Title VII, 42 U.S.C. § 2000e-5(b), (f)(1); *Thompson*, 131 S. Ct. 863, as well as to "any citizen . . . depriv[ed] of any rights, privileges, or immunities" under the Commerce Clause, 42 U.S.C. § 1983; *Dennis*, 498 U.S. 439 (citing *Boston Stock Exch. v. State Tax Comm'n*, 429 U.S. 318 (1977)), in addition to "a person . . . adversely affected or aggrieved" by agency action under the APA, 5 U.S.C. § 702; *Association of Data Processing Service Organizations, Inc. v. Camp*, 397 U.S. 150 (1970).[5] Similarly, the zone-of-interests test should apply to "any person who believes that he or she is or is likely to be damaged" by false advertising under the Lanham Act. 15 U.S.C. § 1125(a).

When a statute provides relief to a broad class of victims, the Court has held that the zone-of-interests

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[5] *See also Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians v. Patchak*, 132 S. Ct. 2199 (2012) (applying zone-of-interests test to Indian Reorganization Act suit under the APA); *FEC v. Akins*, 524 U.S. 11 (1998) (applying test to suit under 2 U.S.C. §§ 437g(8)(A), (C), of the Federal Election Campaign Act); *National Credit Union Admin. v. First Nat. Bank & Trust Co.*, 522 U.S. 479 (1998) (applying test to Federal Credit Union Act suit under the APA).

test avoids the "absurd consequences" of affording standing to any person injured in the Article III sense, but it also avoids "the other extreme" in which "artificially narrow meaning" is ascribed with "no basis in text or prior practice." *Thompson,* 131 S. Ct. 863, 869-70. A restrictive prudential standing test, like the AGC or categorical test, would not only ascribe "artificially narrow meaning" to the words used in Section 43(a), it would have "no basis in . . . prior practice." *Thompson,* 131 S. Ct. at 870. As the Court noted in *Bennett*, Congress has an established practice of using specific, narrow language when it wants to limit standing under unfair competition statutes. *Bennett*, 520 U.S. at 165 ("Congress has often been . . . more restrictive . . . [i]n statutes concerning unfair trade practices and other commercial matters," such as by authorizing suit only by "any person injured in his business or property," 7 U.S.C. § 2305(c) (Agricultural Fair Practices Act), 15 U.S.C. § 72 (Antidumping Act), or by "competitors, customers, or subsequent purchasers," *id.* § 298(b) (National Gold and Silver Stamping Act)). It would be inconsistent with prior practice – and "artificial" – to conclude that Congress intended comparable limitations on prudential standing for a statute "concerning unfair trade practices and other commercial matters," *id.*, but which defines the class of victims using broader language than the acts cited in *Bennett, see* 15 U.S.C. § 1125(a), 1127.

To be sure, the Court has sometimes departed from the zone-of-interests test, including to determine

when "any person injured in his business or property" has standing to bring a treble damages action under the antitrust laws. *Associated General Contractors of Cal., Inc. v. Cal. State Council of Carpenters*, 459 U.S. 519 (1983). The Court has maintained, however, that "at bottom the reviewability question turns on congressional intent." *Clarke v. Sec. Indus. Ass'n*, 479 U.S. 388, 400 (1987); *accord Associated General Contractors*, 459 U.S. at 534 (grounding holding in congressional intent that the Sherman Act be construed in light of its common law background).

Congressional intent is gleaned from "articulable consideration[s] of statutory policy." *Blue Shield of Va. v. McCready*, 457 U.S. 465, 473 (1982). Even in antitrust, where the Court has departed from the zone-of-interests test, it has proceeded from the unexceptional principle that statutory policy is the touchstone of prudential standing. *See Associated General Contractors*, 459 U.S. at 538 (favorably citing *McCready* and affirming "the relevance of [the Sherman Act's] central [statutory] policy to a determination of the plaintiffs' right to maintain an action under § 4."); *McCready*, 457 U.S. at 473 (the Court enforces the "broad remedial and deterrent objectives" of the antitrust laws absent "some articulable consideration of statutory policy suggesting a contrary conclusion in a particular factual setting"); *cf. Associated General Contractors*, 459 U.S. at 546 (Marshall, J., dissenting) (agreeing that articulable considerations of statutory policy should determine who has prudential standing but disagreeing with majority's interpretation).

The Petitioner's argument for restricting standing fails to address the role of statutory policy. Although Petitioner correctly recognizes that the Lanham Act may be conceived as a competition statute, it draws the mistaken inference that the antitrust standing test is appropriate for the Lanham Act because it allegedly "maps nicely" onto the Lanham Act. Pet'r's Br. at 3. Alternatively, Petitioner suggests that the Court should choose a categorical test, limiting standing to competitors, because it affords a "bright line." Pet'r's Br. at 12, 29-30. These arguments gloss over key distinctions between the Lanham Act and the antitrust laws, *see supra* Sec. I.B., or altogether ignore congressional intent and Lanham Act policy, *see supra* Sec. I.A. The zone-of-interests test would adhere to congressional intent and statutory policy.

III. IF THE COURT CHOOSES FROM AMONG THE THREE TESTS DESCRIBED IN THE QUESTION PRESENTED, IT SHOULD ADOPT THE REASONABLE INTEREST TEST

A. The Reasonable Interest Test Better Effectuates Congressional Intent

If the Court should depart from the zone-of-interests test and choose from among the three tests described in the Question Presented, it should adopt the reasonable interest test. The reasonable interest test requires a plaintiff to show that it has a "reasonable interest to be protected against the false

advertising" and "a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising." *Static Control Components, Inc. v. Lexmark International, Inc.*, 697 F.3d 387, 410 (6th Cir. 2012). Although the zone-of-interests test has stronger moorings to this Court's precedent, *see supra* Sec. I.C., and to congressional intent, *see infra* note 6, the reasonable interest protects the public interest in accurate information in the marketplace better than the categorical and AGC tests.

Like the zone-of-interests test, the reasonable interest test allows commercial market participants injured by the dissemination of false or misleading information to seek redress. Some plaintiffs with standing, including competitors of the business that disseminated false or misleading information, may not vindicate their statutory rights. They may benefit from the deception or believe that their injury does not justify the significant costs of litigation. *See infra* Sec. III.B. Like the zone-of-interests test, the reasonable interest test increases the likelihood that a plaintiff will actually emerge to remedy a particular instance of deceptive behavior. Judicial experience in applying the AGC test to antitrust claims reveals the folly of hoping and waiting for the "ideal" plaintiff, however defined, to appear. *See infra* Sec. III.C. When false or misleading information is circulated in the market, even an "imperfect" plaintiff is preferable to no plaintiff at all.

Although some cite a flood of litigation and overdeterrence in opposition to less restrictive standing

rules, Diane Taing, *Competition for Standing: Defining the Commercial Plaintiff Under Section 43(a) of the Lanham Act*, 16 Geo. Mason L. Rev. 493, 513, 516 (2009), both concerns are, at the very least, overstated. There is no indication that jurisdictions already applying the reasonable interest test have been burdened by a flood of Lanham Act claims or a decline in truthful advertising; adoption of the test nationwide is unlikely to yield a different outcome. The two factors in the reasonable interest test place real limits on standing. Even as the courts have defined "reasonable interest" broadly, *see, e.g., ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 169 (2d Cir. 2007), they have limited it to "commercial interests." *Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994). At the same time, courts have interpreted the "reasonable basis" prong to require a causal nexus between the plaintiff's injury and the alleged falsehood, which limits suits by parties whose injury is only tenuously or remotely related to the falsehood.[6] *Id.* at 694. And, of course, plaintiffs that satisfy

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[6] An inquiry into remoteness is implicit in both the zone-of-interests test and the reasonable interest test. Whereas the zone-of-interests test tethers the remoteness inquiry to congressional intent, the reasonable interest test requires that a causal nexus "be demonstrated in some manner." *See Ortho Pharm. Corp.*, 32 F.3d at 694. Under either test, for example, a person injured by a product that is falsely advertised to be safe presumably would lack standing to recover for physical injuries, and her insurer presumably would lack standing to recover its insurance payments. But the claims would fail for different reasons. They fail under the reasonable interest test for the

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the reasonable interest test, like plaintiffs under any prudential standing test, would still have to establish the substantive requirements of a false advertising claim. *See, e.g.*, *Camel Hair & Cashmere Institute of Am., Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6, 10-12 (1st Cir. 1986) (separate analyses of plaintiff's standing and request for preliminary injunction).

Importantly, the remedies under the Lanham Act are limited. Unlike antitrust claims, in which victorious plaintiffs are entitled to treble damages and attorneys' fees, winning Lanham Act plaintiffs are entitled primarily to injunctions. *See, e.g., Audi AG v. D'Amato*, 469 F.3d 534, 550-51 (6th Cir. 2006) ("Injunctive relief is the remedy of choice for trademark and unfair competition cases, since there is no adequate remedy at law for the injury caused by a defendant's continuing infringement.") (citing *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1180 (9th Cir. 1988)); *see also* Jean Wegman Burns, *The Paradox of Antitrust and Lanham Act Standing*, 42 UCLA L. Rev. 47, 72 (1994) (hereinafter, "Burns, *Paradox of Standing*"). Although *compensatory* damages are available, plaintiffs face a high burden of

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absence of commercial harm and lack of a causal nexus between the alleged injuries and the alleged falsehoods, whereas they fail under the zone-of-interests test because neither injury would be within the zone of interests that Congress intended to protect under the Lanham Act. The zone-of-interests test is superior because it tethers the inquiry more closely to congressional intent and statutory policy, which this Court has recognized as the touchstone of prudential standing. *See supra* Sec. II.

proof and must prove the additional element of commercial injury to obtain damages. *See, e.g., William H. Morris Co. v. Group W, Inc.*, 66 F.3d 255, 258 (9th Cir. 1995) (denying damages for lost profits); *see also* Burns, *Paradox of Standing* at 72 n.106; Jean Wegman Burns, *Confused Jurisprudence: False Advertising under the Lanham Act*, 79 B.U. L. Rev. 807, 886 (1999).[7] Also, the "prevailing party" can receive attorneys' fees only in "exceptional" cases. 15 U.S.C. § 1117(a). This typically requires that the non-prevailing party's case is "groundless, unreasonable, vexatious or pursued in bad faith." *Gracie v. Gracie*, 217 F.3d 1060, 1071 (9th Cir. 2000); *see also Eagles, Ltd. v. Am. Eagle Found.*, 356 F.3d 724, 728-29 (6th Cir. 2004).

Litigation is a costly and risky venture. Plaintiffs are likely to file a complaint only when they have an *economic incentive* to sue, not merely when they have a *legal right* to sue. Arthur Best, *Controlling False Advertising: A Comparative Study of Public Regulation, Industry Self-Policing, and Private Litigation*, 20 Ga. L. Rev. 1, 55 (1985). When this intrinsic feature of litigation is combined with the limited remedies afforded by the Lanham Act, a less restrictive standing rule is unlikely to produce a surge in false advertising suits. Moreover, the belief that a less restrictive standing test will lead to a flood of false advertising

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[7] Although the Lanham Act confers authority for a court to treble a plaintiff's damage recovery, it may do so only if the profit recovery is otherwise inadequate. 15 U.S.C. § 1117(a). Any trebling of damages award must "constitute compensation and not a penalty." *Id.*

suits has not been borne out by the evidence. Gerald P. Meyer, *Standing Out: A Commonsense Approach to Standing for False Advertising Suits Under Lanham Act Section 43(a)*, 2009 U. Ill. L. Rev. 309, 318 (2009).

A less restrictive prudential standing test also poses little threat of chilling socially beneficial speech. The claims presented in advertisements can often "be objectively measured allowing the prospective defendant to know the truthfulness of its claims." Lee Goldman, *The World's Best Article on Competitor Suits for False Advertising*, 45 Fla. L. Rev. 487, 511 (1993). Word choice in marketing campaigns is generally the product of careful deliberation. The probable effect of particular words and phrases on consumers is studied at length. *Id.* at 510. "[A]mbiguities or misleading messages" in advertising are typically the product of deliberate decisions, *id.*, and not the result of innocent mistakes. As an empirical matter, it would be farfetched to claim that "section 43(a) has created any seeming dearth of advertising." Roger E. Schechter, *Additional Pieces of the Deception Puzzle: Some Reactions to Professor BeVier*, 78 Va. L. Rev. 57, 81 (1992).

B. The Categorical Test Would Fail to Deter Anticompetitive Deception Adequately

Of the three tests described in the Question Presented, the categorical test, which limits standing

to direct competitors of the defendant, fails most obviously to account for Lanham Act policy. In addition to contradicting the text of the Lanham Act, which expressly protects "commercial" interests rather than strictly "competitor" interests, 15 U.S.C. § 1127, the categorical test risks allowing the most harmful instances of anticompetitive deception to go unpunished, and it may not be a bright-line test in practice. Moreover, it is hardly obvious why an "indirect" competitor – such as an input supplier of an important component used by direct downstream competitors of the defendant – should be denied standing, particularly where, as alleged here, the input supplier was directly targeted by false statements. *See Amicus Curiae* Br. of Am. Intellectual Prop. Law Ass'n in Support of Neither Party at 22-23.

A competitor injured by a rival's misrepresentation may not have the incentive to seek legal redress and remedy deception. For example, a rival's false statements about its own products may allow it to capture a substantial volume of sales. Although the overall effect of the deception is large, the harm suffered by an individual competitor in a market with many firms may be small. Burns, *The Paradox of Standing*, *supra* at 85-86. Under these circumstances, the deception may go unremedied because an individual competitor's injury may be too insignificant to justify the costs of litigation. And, most of the benefits of successful litigation may accrue to other participants in the market. Rebecca Tushnet, *Running the Gamut from A to B: Federal Trademark and False*

Advertising Law, 159 U. Pa. L. Rev. 1305, 1381 (2011) (hereinafter "Tushnet, *Running the Gamut from A to B*"). A business is unlikely to expend time and money on a lawsuit unless it is expected to be privately profitable.

Competitors may sometimes find that the rational response to the false statements of a rival is not litigation, but emulation of the deception. As a rival's campaign of false advertising continues unabated, a competitor may steadily lose market share and experience a decline in revenues and profits. Maurice E. Stucke, *How Do (and Should) Competition Authorities Treat a Dominant Firm's Deception?*, 63 SMU L. Rev. 1069, 1096-97 (2010). Instead of staking its market position on uncertain legal remedies, a competitor may respond to a rival's deception with deception of its own. *Id.* at 1097. This emulation of deception may be the most practical way to maintain market share in the midst of pervasive misinformation. In this situation, the original deception is not remedied; it is amplified.

At other times, a competitor may benefit from the deception of a rival and opt not to challenge the misrepresentation in court or the market. If the deception pertains to an entire product category instead of a specific brand or company, every firm in the industry may benefit from the false information. If, for instance, a supplier makes unsubstantiated positive claims about general product attributes, sales in the entire category are likely to increase. Best, *supra*, at 69-70. Although producers may not

benefit equally, all firms in the particular product segment are likely to experience an increase in sales from the single supplier's deception. Competitors are not hurt by these types of representations; they profit from them. Empirical evidence confirms that competitors are unlikely to challenge general misrepresentations. Studies have shown that false advertising claims by competitors overwhelmingly involve comparative advertisements involving specific brands. *Id.* at 26-28; Burns, *Paradox of Standing*, *supra*, at 85-86.

While the categorical test superficially offers a bright-line rule for standing, applying the test is likely far from straightforward in practice. Before a court can decide whether a plaintiff is a competitor of the defendant, it may have to decide whether the two parties are in the same economic market. Meyer, *supra*, at 317. For instance, are McDonald's and Taco Bell competitors in a broad fast food market? Or do they participate in separate hamburger and Tex-Mex markets, respectively? The answer is not intuitively obvious and requires an in-depth factual inquiry. Since standing is a threshold question, market definition would generally need to be decided at the pleading stage prior to the development of the factual record.[8]

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[8] The concern is not merely theoretical, as lower courts applying the categorical test have denied plaintiffs standing in false advertising cases on the basis of market definition. *See,*

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The recent history of antitrust litigation shows the challenges of market definition. *See* Philip A. Areeda, *The Changing Contours of the Per Se Rule*, 54 Antitrust L.J. 27, 28 (1985) ("We have certainly learned from merger, monopoly, and rule of reason cases that proving markets and power is difficult, complex, expensive and time-consuming."); Robert Pitofsky, *New Definitions of Relevant Market and the Assault on Antitrust*, 90 Colum. L. Rev. 1805, 1807 (1990) ("Unfortunately, no aspect of antitrust enforcement has been handled nearly as badly as market definition. . . . [T]he critical issues in market definition . . . are all matters of degree that are extremely difficult to measure."); *U.S. Healthcare, Inc. v. Healthsource, Inc.*, 986 F.2d 589, 598 (1st Cir. 1993) (Boudin, J.) ("There is no subject in antitrust law more confusing than market definition."); *see also* Louis Kaplow, *Why (Ever) Define Markets?*, 124 Harv. L. Rev. 438 (2010) (arguing that market definition in antitrust should be abandoned because it is incoherent). If courts insist on rigorous market definition to decide whether a plaintiff "competes" with a defendant, even some apparent competitors may be denied standing and generally deterred from pursuing meritorious false advertising claims.

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e.g., *New.Net, Inc. v. Lavasoft*, 356 F. Supp. 2d 1090, 1116 (C.D. Cal. 2004).

C. The AGC Test Has Weakened Private Enforcement of the Antitrust Laws and Would Fail to Deter Anticompetitive Deception Adequately

While perhaps facially less problematic than the categorical test, the AGC test,[9] established by the Court to decide antitrust standing, also has serious deficiencies and should not be applied to false advertising claims.[10] This Court has stated that a standing test developed for one statutory scheme may not necessarily be appropriate for another. *Clarke*, 479 U.S. at 400 n.16. When applied to private antitrust claims, the AGC test has resulted in weakened enforcement of the antitrust laws. Furthermore, the two primary theoretical grounds for limiting standing in the antitrust arena – the potential for antitrust suits to be used to protect competitors instead

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[9] The AGC factors are: (1) the nature of the plaintiff's injury and the specific relationship between that injury and the alleged violation; (2) the directness with which the injury resulted from the market restraint; (3) the speculativeness of the injury; (4) the risk of duplicative recoveries and the complexity of apportioning damages; and (5) whether the injury was of a type that the antitrust laws seek to redress. *See Associated General Contractors*, 459 U.S. at 519.

[10] In adapting the AGC test for Lanham Act claims, the Third Circuit modified the test. *Conte Bros. Automotive, Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 233 (3d Cir. 1998). This revision is perhaps an implicit acknowledgement that the test is not the appropriate screen for false advertising suits. Tushnet, *Running the Gamut from A to B*, *supra*, at 1376.

of competition and antitrust law's potent remedies – are *not* applicable to the Lanham Act.

In antitrust, the AGC test has been criticized for giving "a license to the lower courts to engage in imprecise, outcome-oriented decision making." Jonathan M. Jacobson & Tracy Greer, *Twenty-One Years of Antitrust Injury: Down the Alley with* Brunswick v. Pueblo Bowl-O-Mat, 66 Antitrust L.J. 273, 293 (1998). The test implicates complex questions of fact that often have to be resolved before any discovery has been taken. John J. Flynn, *Which Past Is Prolog? The Future of Private Antitrust Enforcement*, 35 Antitrust Bull. 879, 905-06 (1990). Deciding standing requires "a paper minitrial on both the facts and law *via* motion practice without any of the constraints of a normal trial or a full record on which the court can make an informed judgment." *Id.* at 903 (emphasis in original). And, it is unclear whether plaintiffs have to satisfy all factors, a majority of factors, or just multiple factors. Robert P. Taylor, *Antitrust Standing: Its Growing – Or More Accurately Its Shrinking – Dimensions*, 55 Antitrust L.J. 515, 521 (1986).[11]

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[11] The AGC test has fallen into such disfavor with state courts that many choose not to apply it, creating discord when state and federal antitrust claims are tried together. One judge has described the task of deciphering the overall state of antitrust standing as "back-breaking labor." *In re Flash Memory Antitrust Litig.*, 643 F. Supp. 2d 1133, 1153 (N.D. Cal. 2009) (quoting *In re Graphics Processing Units Antitrust Litig.*, 540 F. Supp. 2d 1085, 1097 (N.D. Cal. 2007)).

The AGC test duplicates factors and tilts the balance against granting standing. It gives independent weighting to the directness of a plaintiff's alleged injury and the speculativeness of its damages. Yet, these two factors largely restate each other: "[i]f damages are indirect, they are more likely to be speculative." C. Douglas Floyd, *Antitrust Victims Without Antitrust Remedies: The Narrowing of Standing in Private Antitrust Actions*, 82 Minn. L. Rev. 1, 44 (1997). Similarly, the distinction between the prohibition on duplicative recoveries and the complex allocation of damages encourages courts to treat them as separate grounds for denying standing. The two sub-factors express the same basic principle in different terms: if duplicative recovery is unlikely to occur, complex damage allocation does not arise. *Id.* at 43.

The AGC test has been applied at times in a fashion that carries an "air of unreality." Floyd, *supra*, at 48. Despite suffering direct harms, parties that were instruments (and victims) of the defendant's anticompetitive conduct have been denied standing under the AGC test on the basis that injured consumers or competitors would be superior plaintiffs. *See, e.g.*, *SAS of Puerto Rico, Inc. v. Puerto Rico Tel. Co.*, 48 F.3d 39, 44 (1st Cir. 1995); *Lucas v. Bechtel Corp.*, 800 F.2d 839, 844-45 (9th Cir. 1986). Yet if alternative plaintiffs existed in these cases, they chose not to sue, perhaps because the potential recovery was too small or because important business relationships with the defendant would be harmed. Floyd, *supra*, at 47-48. The courts, in dismissing the

claims of direct targets of antitrust conspiracies, sacrificed the party that "*actually* elected to sue in favor of the *hypothetical* preferred consumer or competitor plaintiff who ha[d] not chosen to vindicate the public interest in antitrust enforcement." *Id.* at 48 (emphasis added).

Fundamentally, the AGC test places undue emphasis on the potential existence of an "optimal" plaintiff. Burns, *Paradox of Standing*, *supra*, at 90. It limits actions "by a 'good' plaintiff, i.e., one who did suffer identifiable harm, merely because the defendant has been able to identify 'better,' i.e., more directly harmed plaintiffs." Joseph P. Bauer, *The Stealth Assault on Antitrust Enforcement: Raising the Barriers for Antitrust Injury and Standing*, 62 U. Pitt. L. Rev. 437, 451 (2001). In many instances, defendants can point to a hypothetically superior phantom plaintiff that could vindicate its rights at some point in the future. Stephen D. Susman, *Standing in Private Antitrust Cases: Where Is the Supreme Court Going?*, 52 Antitrust L.J. 465, 473 (1983). While courts "wait[] for the Godot" of the ideal plaintiff, Burns, *Paradox of Standing*, *supra*, at 103, no plaintiff may emerge at all to challenge anticompetitive conduct.

The AGC test in its quest for the "ideal" plaintiff has likely produced serious underenforcement of the antitrust laws. The Court has noted that private antitrust enforcement serves two vital functions: compensating victims and deterring future anticompetitive behavior. *See Mandeville Island Farms, Inc.*

v. Am. Crystal Sugar Co., 334 U.S. 219, 236 (1948); *California v. Am. Stores Co.*, 495 U.S. 271, 284 (1990). Empirical research has found that private actions yield sizable social benefits. *See* Joshua P. Davis & Robert H. Lande, *Toward an Empirical and Theoretical Assessment of Private Antitrust Enforcement*, 36 Seattle U. L. Rev. 1269, 1316 (2013); Robert H. Lande & Joshua P. Davis, *Benefits from Private Antitrust Enforcement: An Analysis of Forty Cases*, 42 U.S.F. L. Rev. 879, 880 (2008). When anticompetitive behavior has occurred or is about to occur, "society is better served by a knowledgeable second-best plaintiff than by hopes for an ideal person to detect and prosecute the case." Burns, *Paradox of Standing*, at 90.

The considerations that ostensibly support limiting standing for private antitrust claims are not germane to false advertising suits. The AGC test for antitrust standing has been theoretically justified on the basis of antitrust law's potential for anticompetitive misuse and powerful remedies. *Id.* at 69-70. However, while it is frequently said that the antitrust laws protect competition, not competitors, *Brown Shoe Co. v. United States*, 370 U.S. 294, 320 (1962), the Lanham Act protects competition *and* competitors, 15 U.S.C. § 1127. Moreover, the Lanham Act poses qualitatively less theoretical risk of overdeterrence than the antitrust laws. The Court has assumed the possibility of procompetitive justifications for most antitrust violations and described the rule of reason as the "usual" and "prevailing" rule in antitrust. *Leegin Creative Leather Prods., Inc. v.*

PSKS, Inc., 551 U.S. 877, 882 (2007); *Continental Television, Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 49 (1977). Unlike in certain antitrust rule-of-reason cases, there is no theoretical downside to punishing deception even when it is unsuccessful. *Cf., e.g., Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 224 (1993) (positing that unsuccessful attempts at predatory pricing enhance consumer welfare).

Finally, the remedies for successful false advertising suits are much more limited and the stakes for defendants are much lower, which limits concerns as to overdeterrence and duplication of damages. Whereas money damages are common in antitrust and trebling is mandatory, Lanham Act plaintiffs are limited to compensatory damages if they recover any damages at all. Usually, successful Lanham Act plaintiffs are awarded only injunctive relief. *See supra* Sec. III.A.

CONCLUSION

For all of these reasons, the Court should adopt the zone-of-interests test to govern prudential standing for claims under Section 43(a) of the Lanham Act. If the Court chooses from among the tests described in the Question Presented, it should adopt the reasonable interest test and reject the categorical test and the AGC test.

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Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

Amicus Curiae Brief of American Intellectual Property Law Association in Support of Neither Party

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TABLE OF CONTENTS

TABLE OF AUTHORITIES iii

INTEREST OF AMICUS 1

SUMMARY OF ARGUMENT 2

ARGUMENT 7

I. THE REASONABLE INTEREST TEST EFFECTUATES THE PRINCIPAL REQUIREMENT FOR PRUDENTIAL STANDING: FULFILLING THE INTENT OF CONGRESS. 7

A. The Doctrine Of Prudential Standing Requires Courts To Focus On The Intent Of Congress. 7

B. Congress Intended Only Minimal Standing Requirements For False Advertising Claims Under The Lanham Act. 10

C. The Reasonable Interest Test Leads To An Evaluation Of Prudential Standing That Is Consistent With Congressional Intent. 14

II. THE CATEGORICAL TEST AND *CONTE BROTHERS* TEST IMPOSE UNWARRANTED HURDLES TO FALSE ADVERTISING STANDING. 19

A. The Categorical Test Inappropriately Restricts False Advertising Suits To Direct Competitors. 19

B. The *Conte Brothers* Test Imposes Nexus Requirements That Are Inconsistent With Congressional Intent. 23

1. The *Conte Brothers* test is likely to result in denial of standing where Congress intended to provide it. 25

2. The *AGC* analysis does not apply to false advertising claims under the Lanham Act. 29

a. Most of this Court's analysis in *AGC* was antitrust-specific. 29

b. The *AGC* analysis does not apply to false advertising claims under the Lanham Act. 31

CONCLUSION 38

TABLE OF AUTHORITIES

CASES

Association of Data Processing Service Organizations, Inc. v. Camp, 397 U.S. 150 (1970) 8

Associated General Contractors of California, Inc. v. California State Council of Carpenters, 459 U.S. 519 (1983) ..... *passim*

Bennett v. Spear, 520 U.S. 154 (1997) 9

Bernard Food Industries, Inc. v. Dietene Co., 415 F.2d 1279 (7th Cir. 1969) 28

Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477 (1977) 31

Camel Hair & Cashmere Institute of America, Inc. v. Associated Dry Goods Corp., 799 F.2d 6 (1st Cir. 1986) 14

Caminetti v. United States, 242 U.S. 470 (1917) 8

Cargill, Inc. v. Monfort of Colorado, Inc., 479 U.S. 104 (1986) 36, 37

Clarke v. Securities Industry Ass'n, 479 U.S. 388 (1987) 7, 8, 10

Colligan v. Activities Club of New York Limited, 442 F.2d 686 (2d Cir. 1971) 13

Conte Brothers Automotive, Inc. v. Quaker State-Slick 50, Inc., 165 F.3d 221 (3d Cir. 1998) 5, 19, 22, 23, 24

Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23 (2003) 12

Elk Grove Unified School District v. Newdow, 542 U.S. 1 (2004) 7, 8

Famous Horse, Inc. v. 5th Avenue Photo Inc., 624 F.3d 106 (2d Cir. 2010) 4, 11, 14, 16, 21, 24

Frisch's Restaurants, Inc. v. Elby's Big Boy of Steubenville, Inc., 670 F.2d 642 (6th Cir. 1982) 14, 15, 36

Furniture "R" Us, Inc. v. Leath Furniture, LLC, No. 07-23321-civ, 2008 WL 4444007 (S.D. Fla. Sept. 26, 2008) 27

Halicki v. United Artists Communications, Inc., 812 F.2d 1213 (9th Cir. 1987) 20

Holmes v. Securities Investor Protection Corp., 503 U.S. 258 (1992) 9, 10, 11, 25, 29, 31, 32

Illinois Brick Co. v. Illinois, 431 U.S. 720 (1977) 30

ITC Ltd. v. Punchgini, Inc., 482 F.3d 135 (2d Cir. 2007) 15, 17

Jack Russell Terrier Network of Northern California v. American Kennel Club, Inc., 407 F.3d 1027 (9th Cir. 2005) 19, 20, 21

Johnson & Johnson v. Carter-Wallace, Inc., 631 F.2d 186 (2d Cir. 1980) 15, 21, 35, 36

Made in USA Foundation v. Phillips Foods, Inc., 365 F.3d 278 (4th Cir. 2008) 13

McNeilab, Inc. v. American Home Products Corp., 848 F.2d 34 (2d Cir. 1988) 17

Ortho Pharmaceuticals Corp. v. Cosprophar, Inc., 32 F.3d 690 (2d Cir. 1994) 15, 16, 17, 19, 36

Phoenix of Broward, Inc. v. McDonald's Corp., 489 F.3d 1156 (11th Cir. 2007) .. 23, 26, 27

Procter & Gamble Co. v. Amway Corp., 242 F.3d 539 (5th Cir. 2001) 23

Reno v. Bossier Parish School Board, 528 U.S. 320 (2000) 22

Societe Des Hotels Meridien v. LaSalle Hotel Operating Partnership, L.P., 380 F.3d 126 (2d Cir. 2004) 15

Stanfield v. Osborne Industries, Inc., 52 F.3d 867 (10th Cir. 1995) 19, 21

Team Tires Plus, Ltd. v. Tires Plus, Inc., 394 F.3d 831 (10th Cir. 2005) 22

TrafficSchool.com, Inc. v. Edriver Inc., 653 F.3d 820 (9th Cir. 2011) 16, 35

U-Haul International, Inc. v. Jartran, Inc., 681 F.2d 1159 (9th Cir. 1982) 12, 33

Waits v. Frito–Lay, Inc., 978 F.2d 1093 (9th Cir. 1992) 21, 22

Warth v. Seldin, 422 U.S. 490 (1975) 7, 10

Yale Electric Corp. v. Robertson, 26 F.2d 972 (2d Cir. 1928) 34

STATUTES

5 U.S.C. § 702 8

15 U.S.C. § 15 ..... 24, 35

15 U.S.C. § 26 36

15 U.S.C. § 1116(a) 13, 36

15 U.S.C. § 1117 13

15 U.S.C. § 1117(a)(3) 33

15 U.S.C. § 1125(a) (1946) 28

15 U.S.C. § 1125(a)(1) ..... *passim*

15 U.S.C. § 1125(a)(1)(A) 11, 21

15 U.S.C. § 1125(a)(1)(B) 11, 21, 28

15 U.S.C. § 1125(c)(1) 22

15 U.S.C. § 1127 ..... 3, 12, 16, 20, 32

Trademark Law Revision Act of 1988, Pub. L. No. 100-667 § 132, 102 Stat. 3935, 3946 17

LEGISLATIVE MATERIALS

S. Rep. No. 79-1333 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274 ..... 12, 13, 33

S. Rep. No. 100-515 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577 ..... 17, 20, 33

OTHER AUTHORITIES

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INTEREST OF AMICUS

The American Intellectual Property Law Association ("AIPLA") is a national bar association of approximately 14,000 members engaged in private and corporate practice, in government service, and in the academic community.[1] AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. AIPLA has no stake in any of the parties to this litigation or in the result of this case other than its interest in seeking the correct and consistent interpretation of the law as it relates to intellectual property issues.

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[1] In accordance with Supreme Court Rule 37.6, amicus curiae states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the amicus curiae or its counsel. After reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation, (ii) no representative of any party to this litigation participated in the authorship of this brief, and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief. In accordance with Supreme Court Rule 37.3(a), all parties have consented to the filing of this brief in letters on file with the Clerk of the Court.

SUMMARY OF ARGUMENT

This Court should adopt the "reasonable interest" test, as established and elaborated upon by the Second Circuit, to analyze whether a plaintiff has prudential standing to bring a false advertising claim under the Lanham Act. Of the three conflicting tests articulated by the circuit courts, only the Second Circuit's reasonable interest test applies prudential limitations that are consistent with the purpose of the statute, the critical benchmark in analyzing prudential standing.

Prudential standing is a judicial doctrine that facilitates interpretation of statutes by focusing on whether the claim a plaintiff seeks to vindicate is encompassed within the rights created under a statute. In essence, it addresses whether Congress intended a party in the plaintiff's position to have standing to sue, while taking into account background principles against which Congress is presumed to legislate.

Section 43(a)(1) of the Lanham Act, 15 U.S.C. § 1125(a)(1), provides a cause of action against false advertising. A proper test for prudential standing to assert false advertising claims under this provision should impose only relatively minimal limitations. Congress intended the category of potential plaintiffs to be extremely broad, as evident from the statutory language: "[A]ny person who believes that he or she is or is likely to be damaged by" false advertising may sue under the Act. *Id.* This is further evidenced by the policy goal articulated by Congress in the last paragraph of section 45 of the statute: to protect

commercial interests against particular forms of unfair competition, including false advertising. *Id.* § 1127. The only limitation on standing that reasonably could be supported by these provisions is a limitation on suits by those without a commercial interest: namely consumers. Under governing background presumptions, it is also reasonable to presume Congress did not intend to permit suit for every remote injury caused by false advertising. But Congress's broad language otherwise reflects a policy decision that any entity suffering a commercial injury caused by false advertising should be permitted to sue.

The reasonable interest test developed by the Second Circuit results in standing determinations that are consistent with Congress's policy decision on who should be able to sue. The other tests articulated by the circuits do not. These tests differ on two dimensions: (1) the types of plaintiffs covered by the statute, and (2) the nexus required between the false advertisement and the alleged harm. The reasonable interest test, which is applied with some variations by the First, Second and Sixth Circuits, has the advantage of permitting courts to resist bright-line determinations and to address both issues on a case-by-case basis, consistent with principles of prudential standing generally.

Under the reasonable interest test, a plaintiff has standing if it demonstrates (1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false

advertising. *Famous Horse, Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d Cir. 2010) (citing *Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994)). Case law developed through application of this test provides further guidance. The Second Circuit has made clear that commercial entities, but not consumers, have reasonable interests to be protected because they fall within the zone of interests that Congress intended to protect. If a commercial plaintiff is a competitor of the alleged false advertiser, it is also able to meet the second prong of the test with little additional showing because there is a direct nexus between its harm and the false advertising. Non-competitors who are not directly disparaged by the advertisement, however, must make an additional showing of the likelihood of injury because a direct nexus is not automatic. The reasonable interest test thus provides standing to commercial entities whose injuries are not too remote from the false advertisement, and does so without imposing additional barriers that Congress did not intend.

In contrast, the two competing prudential standing tests impose unwarranted restrictions on standing. The Ninth and Tenth Circuits impose a categorical restriction on who may bring a false advertising claim: the plaintiff must be a competitor of the defendant and must allege a competitive injury. Yet there is no indication that Congress intended such an artificial distinction between legitimate suits brought by "competitors" and illegitimate suits brought by "non-competitors." Such a bright-line rule is also inconsistent with

standing requirements for other Lanham Act claims. And it disregards the reality that an entity can suffer real commercial harms from false advertising without being in direct competition with the advertiser.

The third approach, a multifactor balancing test developed by the Third Circuit in *Conte Brothers Automotive, Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 233 (3d Cir. 1998), also misses the mark. Under *Conte Brothers*, courts balance:

> (1) The nature of the plaintiff's alleged injury: Is the injury "of a type that Congress sought to redress in providing a private remedy for violations of the [Lanham Act]"?
>
> (2) The directness or indirectness of the asserted injury.
>
> (3) The proximity or remoteness of the party to the alleged injurious conduct.
>
> (4) The speculativeness of the damages claim.
>
> (5) The risk of duplicative damages or complexity in apportioning damages.

Id. (citing *Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters*, 459 U.S. 519, 538-44 (1983) ("*AGC*")). The second through fifth *Conte Brothers* factors collectively impose a stringent causation requirement that is inconsistent with what Congress intended for the false advertising provision, dramatically elevating the importance of causation in the prudential standing analysis. And the fourth and fifth factors go beyond anything justified by the

presumption that remote injuries should be excluded.

The Third Circuit derived the *Conte Brothers* test from the standing analysis this Court employed for certain antitrust claims in *AGC*, 459 U.S. at 538-44. But *AGC* did not suggest a simple balancing of factors even in the antitrust context. And the *AGC* factors are antitrust-specific. They are rooted in the Clayton Act's specific legislative history, the complexity of antitrust trials, and the remedy available under the statutory provision: damages but not injunctions. These factors are poorly suited for evaluating standing under the false advertising provision of the Lanham Act, 15 U.S.C. § 1125(a)(1). The language of the Lanham Act is broader than in the Clayton Act. The available remedies under the Lanham Act include injunctive relief, thus reducing the importance of prudential factors unique to damages. And because there is no consumer standing for false advertising claims, a broad class of commercial plaintiffs must have standing to protect against the consumer confusion the Act was designed to limit. Application of the *AGC* factors to the Lanham Act has led courts to eliminate claims even by entities Congress most clearly wanted to protect: direct competitors who are the most directly impacted by false advertising.

This Court should thus reject the *Conte Brothers* and categorical tests and adopt the reasonable interest test.

ARGUMENT

I. THE REASONABLE INTEREST TEST EFFECTUATES THE PRINCIPAL REQUIREMENT FOR PRUDENTIAL STANDING: FULFILLING THE INTENT OF CONGRESS.

A. The Doctrine Of Prudential Standing Requires Courts To Focus On The Intent Of Congress.

The Court's evaluation of what test is appropriate for prudential standing under the Lanham Act, as under any statute, must focus on the purpose of the Act. Prudential standing "embodies 'judicially self-imposed limits on the exercise of federal jurisdiction,'" *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1, 11 (2004) (quoting *Allen v. Wright*, 468 U.S. 737, 751 (1984)), but "at bottom[,] the reviewability question turns on congressional intent." *Clarke v. Sec. Indus. Ass'n*, 479 U.S. 388, 400 (1987). Because prudential standing is not a constitutional doctrine,[2] the judicial principles of prudential standing are, in essence, interpretive guides.

While there is no single inquiry used to assess prudential standing across all claims, *see id.* at 400

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[2] Standing jurisprudence contains two strands: Article III standing and prudential standing. *Warth v. Seldin*, 422 U.S. 490, 498 (1975). The constitutional requirements for standing are not at issue here, as they are easily met by the plaintiff in this case.

n.16, several key principles underlie the doctrine. "[P]rudential standing encompasses 'the general prohibition on a litigant's raising another person's legal rights, the rule barring adjudication of generalized grievances more appropriately addressed in the representative branches, and the requirement that a plaintiff's complaint fall within the zone of interests protected by the law invoked.'" *Elk Grove*, 542 U.S. at 12 (quoting *Allen*, 468 U.S. at 751). Of these three general principles, only the zone of interests principle is at issue here.

This Court initially articulated the "zone of interests" inquiry to assess whether persons are "aggrieved by agency action" within the meaning of the Administrative Procedure Act, 5 U.S.C. § 702. *Ass'n of Data Processing Serv. Orgs., Inc. v. Camp*, 397 U.S. 150, 153 (1970). It explained that the question is "basically one of interpreting congressional intent." *Clarke*, 479 U.S. at 394. Although the precise formulation of the test may vary, this Court has employed that same sort of inquiry outside the context of the APA, sometimes labeling it as a zone of interests inquiry and sometimes not. *See id.* at 399-401. Regardless, the Court has focused on whether Congress intended a party in the plaintiff's position to have standing to sue under the statute. *Id.* at 399-400.

Ordinarily, congressional intent is determined from statutory language, and the inquiry stops there when the language is plain. *Caminetti v. United States*, 242 U.S. 470, 485 (1917). However, courts presume that "Congress legislates against the

background of [the] prudential standing doctrine, which applies unless it is expressly negated." *Bennett v. Spear*, 520 U.S. 154, 163 (1997). That is because even when Congress uses broad language in conferring a cause of action, there often will be certain plaintiffs whom it is unlikely Congress intended could sue. If, for example, Congress "conferred a cause of action upon 'all purchasers, sellers, or owners of stock injured by securities fraud,'" it is unlikely Congress intended that "a stockholder who suffered a heart attack upon reading a false earnings report could recover his medical expenses." *Holmes v. Sec. Investor Protection Corp.*, 503 U.S. 258, 288 (1992) (Scalia, J., concurring). Similarly, for many statutes, it is reasonable to presume that Congress intended to incorporate some requirement of proximate causation rather than permitting suit for the most remote, unforeseeable repercussion of an action. *Id.* at 287; *see also id.* at 266 & n.10 (majority opinion) (noting the "unlikelihood that Congress meant to allow all factually injured plaintiffs to recover," because "'[i]n a philosophical sense, the consequences of an act go forward to eternity . . . . But any attempt to impose responsibility upon such a basis would result in infinite liability for all wrongful acts . . . .'" (internal quotation marks omitted) (quoting W. Keeton et al., *Prosser and Keeton on Law of Torts* § 41 (5th ed. 1984))).

But prudential standing is not an invitation for courts to engage in their own policy analysis of who should be able to sue. Prudential standing establishes limits "founded in concern about the

proper – and properly limited – role of the courts in a democratic society." *Warth*, 422 U.S. at 498. Since these limits are judicially imposed, courts must not extend the limits too far or they will have precisely opposite the effect intended. Courts will depart from their "properly limited" role, *id.*, by relying on their own policy views to establish standing requirements that go beyond those intended by Congress. *Cf. Clarke*, 479 U.S. at 399 (explaining that under zone of interests test as applied under APA, question is whether "the plaintiff's interests are so marginally related to or inconsistent with the purposes implicit in the statute that it cannot reasonably be assumed that Congress intended to permit the suit"); *Holmes*, 503 U.S. at 289 (Scalia, J., concurring) (policy concerns such as high threat of nuisance suits in securities legislation, while relevant, "are surely not alone enough to restrict standing to purchasers or sellers under a text that contains no hint of such a limitation").

B. Congress Intended Only Minimal Standing Requirements For False Advertising Claims Under The Lanham Act.

Only relatively minimal requirements of prudential standing are consistent with the false advertising provision in section 43(a)(1) of the Lanham Act, 15 U.S.C. § 1125(a)(1). The language and purpose of the false advertising provision preclude any standing requirements beyond a restriction on consumer standing and a limited nexus requirement to rule out injuries so indirect that it is

reasonable to presume Congress did not intend them to be the basis of a lawsuit.

Section 43(a)(1) of the Lanham Act bars both false advertising, *id.* § 1125(a)(1)(B), and false association, *id.* § 1125(a)(1)(A). Section 43(a)(1)(B) expressly protects against advertisements that either falsely laud the advertiser's own products, services or commercial activities or falsely disparage those of others. *Id.* § 1125(a)(1)(B) (allowing claims against a person who "misrepresents . . . his or her or another person's goods, services, or commercial activities").

Section 43(a)(1) contains expansive language on who can sue. It specifies that suit is permitted "by any person who believes that he or she is or is likely to be damaged by such act" of false advertising or false association. *Id.* § 1125(a)(1). The text evidences a liberal approach to both the type of plaintiffs who can sue ("any person"), and the type of nexus required for standing ("belie[f] that he or she is or is likely to be damaged"). "Read literally, this language would confer standing upon virtually any plaintiff who claims any sort of injury." *Famous Horse*, 624 F.3d at 111.

While the sweeping language of section 43(a)(1) should be the starting point in analyzing standing, prudential considerations rooted in the statutory scheme have occasionally led this Court to interpret "any person" language more narrowly than a literal reading would suggest. *See, e.g.*, *Holmes*, 503 U.S. at 265-68; *AGC*, 459 U.S. at 529-31. Here, the statutory scheme also shows Congress's intent was broad.

In the Lanham Act, Congress intended both to secure to a business owner "the good will of his business and protect[] the public against spurious and falsely marked goods." S. Rep. No. 79-1333, at 3 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1274-75; *see also id.* at 4-5, *reprinted in* 1946 U.S.C.C.A.N. at 1276-77; *U-Haul Int'l, Inc. v. Jartran, Inc.*, 681 F.2d 1159, 1162 (9th Cir. 1982); 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 27:31 (4th ed. 2013). Most of the Lanham Act creates and protects trademarks. The false advertising and false association provisions go beyond trademark violations to protect against other forms of misrepresentations for similar purposes. The related purposes suggest standing requirements should be similar for the different causes of action. Courts have generally found standing in trademark cases with very little proof that the particular plaintiff will lose customers as a result of false information disseminated by the defendant. *See infra* at 34.

In the final paragraph of section 45 of the Lanham Act, 15 U.S.C. § 1127, Congress expressly stated its purpose for the Act as a whole, including section 43(a)(1). *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 28-29 (2003). The Act is intended "to protect persons engaged in . . . commerce against unfair competition." 15 U.S.C. § 1127. Section 45 demonstrates that Congress broadly intended to protect commercial entities from unfair competition, including the false advertising barred under section 43(a)(1).

The language in section 45 regarding "persons engaged in . . . commerce" can support one restriction on standing: a restriction on consumer standing, as courts have found. *See, e.g., Colligan v. Activities Club of N.Y., Ltd.*, 442 F.2d 686, 692-93 (2d Cir. 1971); *Made in USA Found. v. Phillips Foods, Inc.*, 365 F.3d 278, 280 (4th Cir. 2008). But the limitation on consumer standing only underscores that Congress intended broad standing for commercial entities. Since one goal of the Lanham Act is to "protect[] the public against spurious and falsely marked goods," S. Rep. No. 79-1333, at 3, *reprinted in* 1946 U.S.C.C.A.N. at 1274-75, the inability of consumers themselves to sue means that a broad set of commercial entities must have standing to ensure that they can serve as the "vicarious avenger" of consumer rights that Congress intended. 5 McCarthy, *supra* § 27:31.

Moreover, the Act provides for injunctive relief, as well as damages, 15 U.S.C. §§ 1116(a), 1117, underscoring that prudential concerns unique to damages should not be used to deny standing altogether.

Thus, the text and purpose of the Lanham Act show that this Court should adopt a generally permissive prudential standing test both with respect to the type of plaintiff permitted to sue and the nexus required between the advertisement and injury. With respect to the former, the proper test must be broad enough to allow commercial entities – but not consumers – to sue. With respect to the latter, the requirement of a nexus should not go

beyond the basic background understanding that Congress, despite the broad language in section 43(a)(1), likely did not intend to permit suit for the most remote, unforeseeable repercussion of an action. *See supra* at 9. The Act itself does not provide any basis to support a stricter nexus requirement. Moreover, the background requirement of proximate cause must not be interpreted in a manner that would preclude suits Congress clearly intended to permit: suits by commercial entities based on advertisements that either disparage them directly or falsely laud the products of their competitors.

C. The Reasonable Interest Test Leads To An Evaluation Of Prudential Standing That Is Consistent With Congressional Intent.

The reasonable interest test effectuates Congress's purpose in the false advertising provision. Under that test, which is employed by the First, Second and Sixth Circuits, courts ask two questions to evaluate standing: whether the plaintiff has demonstrated "(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising." *Famous Horse*, 624 F.3d at 113 (citing *Ortho Pharm.*, 32 F.3d at 694); *see also* Pet. App. 36; *Camel Hair & Cashmere Inst. of Am., Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6, 11-12 (1st Cir. 1986); *Frisch's Rests., Inc. v. Elby's Big Boy of Steubenville, Inc.*, 670 F.2d 642, 649-50 (6th Cir. 1982).

The first prong of the inquiry focuses on the type of injury being asserted by the plaintiff. Contrary to claims by Lexmark, *see* Pet'r's Br. 32-33, this prong is not without substance. Consistent with Congress's intent, a wide variety of commercial interests are considered reasonable. *See ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 169 (2d Cir. 2007) (reasonable interests include "commercial interests, direct pecuniary interests, and even a future potential for a commercial or competitive injury"); *see also, e.g.*, *Societe Des Hotels Meridien v. LaSalle Hotel Operating P'ship, L.P.*, 380 F.3d 126, 130 (2d Cir. 2004) (protecting a chain's goodwill); *Frisch's Rests.*, 670 F.2d at 650 (preventing confusion between two chains); *Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186, 189 (2d Cir. 1980) (preventing lost sales to a separate line of products). That is so regardless of whether the commercial entities asserting these interests are competitors of the advertiser. *Ortho Pharm.*, 32 F.3d at 694. But, as noted above, courts have also found that consumers do not have standing to sue (regardless of the test they have employed). *See supra* at 13.

The second prong of the test requires a plaintiff to show a "reasonable basis" for its belief of injury. It establishes a nexus requirement that rules out suits based on very remote injuries without excluding the direct injuries for which Congress plainly intended to permit suit. Under this prong, "[t]he type and quantity of proof required to show injury and causation has varied from one case to another depending on the particular circumstances,"

reflecting the flexible nature of prudential standing. *Ortho Pharm.*, 32 F.3d at 694.

Where a plaintiff who is a direct competitor of a defendant alleges it was injured by the defendant's false advertisement, little additional proof of nexus is required between the false advertisement and the alleged injury. The plaintiff's status as a competitor generally suffices to show the reasonableness of its belief that it will be harmed by the defendant's false advertisement. That is because "[c]ompetitors vie for the same dollars from the same consumer group, and a misleading ad can upset their relative competitive positions." *TrafficSchool.com, Inc. v. Edriver Inc.*, 653 F.3d 820, 827 (9th Cir. 2011) (internal quotation marks omitted).[3] The existence of the competitive relationship is thus "a strong indication of why the plaintiff has a reasonable basis for believing that its interest will be damaged by the alleged false advertising." *Famous Horse*, 624 F.3d at 113. The nearly-automatic standing of direct competitors also reflects that such competitors are at the core of those Congress intended to protect, as evidenced by the Lanham Act's express purpose of preventing unfair competition. *See* 15 U.S.C. § 1127.

Courts applying the reasonable interest test also correctly hold that where the defendant's advertisements draw a direct comparison with the

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[3] Although *TrafficSchool.com* was applying the categorical test in which only competitors have standing for false advertising claims, its analysis of whether competitors need to show more in order to have standing was similar to that under the reasonable interest test.

plaintiff's product, that generally satisfies the nexus requirement with little need for additional proof. *See ITC Ltd.*, 482 F.3d at 170. The comparison itself shows the plaintiff's claim of injury is reasonable, because "[a] misleading comparison to a specific competing product necessarily diminishes that product's value in the minds of the consumer." *McNeilab, Inc. v. Am. Home Prods. Corp.*, 848 F.2d 34, 38 (2d Cir. 1988). Congress plainly intended to permit suit when a plaintiff's product or service has been directly disparaged. In 1988, Congress amended section 43(a) "to make clear that misrepresentations about another's products are as actionable as misrepresentations about one's own." S. Rep. No. 100-515, at 40 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5603; *see* Trademark Law Revision Act of 1988, Pub. L. No. 100-667 § 132, 102 Stat. 3935, 3946.

Thus, the reasonable interest test correctly requires little proof of nexus when the plaintiff is a competitor or is the direct target of an advertisement. But where the connection between the plaintiff and defendant is more remote, the reasonable interest test requires "a more substantial showing" of causation and injury.[4] *Ortho Pharm.*, 32

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[4] Contrary to Lexmark's representation, *see* Petition at 10, the Second Circuit does not have a "heightened standard" for non-competitors. It simply finds that where the litigants are competitors, that generally suffices to satisfy the second prong. It finds the same thing in cases like this one where the plaintiff is expressly disparaged in the advertisement. *See McNeilab*, 848 F.2d at 38. Thus, the fact that the Sixth Circuit did not apply a heightened standard in the instant case does not show

F.3d at 694. That makes sense. Such cases are less clearly within the core purpose of the Lanham Act. And the existence of such suits does not itself provide evidence that the plaintiff's belief that it has been injured is reasonable – unlike suits by those who are competitors or are the targets of false advertisements. In such cases, plaintiffs must show that their alleged injury is not the sort of remote injury that Congress presumptively did not intend to protect against. This showing is one of proximate cause, not merely but-for causation, and thus goes beyond the constitutional requirements for standing. *Contra* Pet'r's Br. 40. Even if it did not, that would be irrelevant, as there is no reason to believe Congress intended more than this.

In sum, the reasonable interest test ensures that the interest being asserted by the plaintiff is a commercial interest, rather than a consumer interest. And it ensures that the plaintiff's alleged injury is not so removed from the alleged false advertising as to be beyond the scope the Lanham Act intended to protect. No other limitations on standing are consistent with the Lanham Act, and this Court should reject efforts to further limit false advertising standing.

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its analysis differs from the Second Circuit. To the extent the two circuits have taken different approaches, however, *amicus* supports the Second Circuit's application of the reasonable interest test.

II. THE CATEGORICAL TEST AND *CONTE BROTHERS* TEST IMPOSE UNWARRANTED HURDLES TO FALSE ADVERTISING STANDING.

Unlike the reasonable interest test, both the categorical test and the *Conte Brothers* test impose limitations on false advertising standing that are inconsistent with the purpose of the false advertising provision of the Lanham Act. Neither provides a reasonable interpretation of that provision.

A. The Categorical Test Inappropriately Restricts False Advertising Suits To Direct Competitors.

The Ninth and Tenth Circuits apply a categorical test to evaluate standing in false advertising cases: "to have standing for a false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury." *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 873 (10th Cir. 1995) (citing *Waits v. Frito–Lay, Inc.*, 978 F.2d 1093, 1109 (9th Cir. 1992)); *see also Jack Russell Terrier Network of N. Cal. v. Am. Kennel Club, Inc.*, 407 F.3d 1027, 1037 (9th Cir. 2005).

This categorical approach has been rightly rejected by circuits applying both the reasonable interest test and the *Conte Brothers* test. *See, e.g.*, *Ortho Pharm.*, 32 F.3d at 694; *Conte Bros.*, 165 F.3d at 231-32. The categorical approach is a radical departure from the language of section 43(a)(1) permitting "any person who believes that he or she is or is likely to be damaged" by false advertising to sue. 15 U.S.C. § 1125(a)(1). Prudential factors can limit standing to a class smaller than that expressed

in the statute, but limitations excluding all but a narrow subset of the potential plaintiffs encompassed by the language are unwarranted. Yet the categorical test excludes not only consumers but also all commercial entities other than direct competitors. Under that test, for example, even a plaintiff that has been expressly disparaged in a false advertisement would lack standing unless it is a direct competitor of the defendant. *See Halicki v. United Artists Commc'ns, Inc.*, 812 F.2d 1213, 1213-14 (9th Cir. 1987); *Jack Russell Terrier*, 407 F.3d at 1037. But, as discussed above, Congress amended section 43(a) to make clear that false advertisements about another's products or services are actionable. *See* S. Rep. No. 100-515, at 40, *reprinted in* 1988 U.S.C.C.A.N. at 5603.

The Ninth Circuit attempted to root the categorical test in the last paragraph of section 45 of the Lanham Act. The court held that because section 45 provides that the Act protects "persons engaged in . . . commerce against *unfair competition*," 15 U.S.C. § 1127 (emphasis added), commercial entities are protected from unfair actions by only their direct competitors. *Halicki*, 812 F.2d at 1214. But the phrase "persons engaged in commerce" defines the types of entities that fall within the zone of interests. The term "unfair competition" is not a limitation on the types of entities that can sue. It is merely a high-level description of the conduct rendered unlawful in specific provisions of the Act, including false advertising.

Moreover, entities often have competing interests even if they are not direct competitors, and thus can still engage in unfair competition. For example, entities on different levels of a manufacturing chain may not be direct competitors, but each can have competing interests that can be damaged by the other's false advertising. *See, e.g.*, *Famous Horse*, 624 F.3d at 113. Similarly, different types of products may not be in direct competition but may still compete in a broader market for customers. *See, e.g.*, *Johnson & Johnson*, 631 F.2d at 190. As a result, "[t]he passé semantic argument that there cannot be 'unfair competition' without 'competition' between the parties has often been rejected." 5 McCarthy, *supra* § 27:32.

That Congress did not intend to categorically exclude suits for false advertising by non-competitors is further evidenced by the reach of other Lanham Act claims. Section 43(a)(1) of the Lanham Act provides a cause of action not only for false advertising, 15 U.S.C. § 1125(a)(1)(B), but also for false association, *id.* § 1125(a)(1)(A), including claims of false endorsement by a celebrity. *Waits*, 978 F.2d at 1107-08. Even courts applying the categorical test for false advertising claims allow non-competitors to bring false association claims. *See Stanfield*, 52 F.3d at 873; *Jack Russell Terrier*, 407 F.3d at 1037. The Ninth Circuit explained that "[c]ommon sense" shows that competition cannot be required for false association claims, "for the purported endorser who is commercially damaged by the false endorsement will rarely if ever be a competitor, and yet is the party best situated to enforce the Lanham Act's

prohibition on such conduct." *Waits*, 978 F.2d at 1107.

The conclusion that non-competitors can sue for false association shows they can also sue for false advertising. Claims for both types of action are subject to the same language in 15 U.S.C. § 1125(a)(1) specifying who can sue, and that language "does not purport to distinguish between the two types of actions available under § 43(a)." *Conte Bros.*, 165 F.3d at 232. This Court has previously "refuse[d] to adopt a construction that would attribute different meanings to the same phrase in the same sentence, depending on which object it is modifying." *Reno v. Bossier Parish Sch. Bd.*, 528 U.S. 320, 329 (2000) (citing *Bankamerica Corp. v. United States*, 462 U.S. 122, 129 (1983)). It should not do so here.[5]

The case at bar demonstrates the irrationality of the categorical test. The Sixth Circuit found Static Control was not an "actual competitor[]" of Lexmark. Pet. App. 36. But Lexmark and Static Control clearly have adverse and competing business interests. And the purportedly false representations that Lexmark made in its advertising were specifically about Static Control. An approach that

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[5] Other Lanham Act claims also illustrate that the statutory scheme does not preclude suits by non-competitors. A non-competitor who holds a famous mark can bring a trademark dilution claim. 15 U.S.C. § 1125(c)(1). Similarly, trademark infringement cases do not require competition among the litigants. *Team Tires Plus, Ltd. v. Tires Plus, Inc.*, 394 F.3d 831, 833 (10th Cir. 2005).

would categorically deny standing to a directly-disparaged commercial entity simply because it is not a competitor of the defendant cannot be right. It is not supported by either the text or structure of the Lanham Act and there are no other reasons to adopt it.

B. The *Conte Brothers* Test Imposes Nexus Requirements That Are Inconsistent With Congressional Intent.

While the categorical test imposes arbitrary limitations on the type of plaintiff who may bring a false advertising claim, the *Conte Brothers* test developed by the Third Circuit, and later adopted by the Fifth and Eleventh Circuits, imposes arbitrary limitations regarding causation and damages. *See Conte Bros.*, 165 F.3d at 231-33; *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156, 1167 (11th Cir. 2007); *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 562-63 (5th Cir. 2001). *Conte Brothers* sets forth a five-factor balancing test that purports to be a mere elucidation of factors relevant to the reasonable interest inquiry. The first factor closely resembles the first prong of the reasonable interest test. It evaluates:

> (1) The nature of the plaintiff's alleged injury: Is the injury "of a type that Congress sought to redress in providing a private remedy for violations of the [Lanham Act]"?

Conte Bros., 165 F.3d at 233 (citation omitted) (quoting *AGC*, 459 U.S. at 538-44).

The remaining four *Conte Brothers* factors, like the second prong of the reasonable interest test, relate to whether there is a sufficient causal nexus. But they establish a far higher barrier to standing. The second prong of the reasonable interest test examines whether the claimant has "a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising." *Famous Horse*, 624 F.3d at 113. In contrast, the remaining four *Conte Brothers* factors require courts to weigh:

> (2) The directness or indirectness of the asserted injury.
>
> (3) The proximity or remoteness of the party to the alleged injurious conduct.
>
> (4) The speculativeness of the damages claim.
>
> (5) The risk of duplicative damages or complexity in apportioning damages.

Conte Bros., 165 F.3d at 233 (citations omitted).

As shown below, application of these factors leads to results inconsistent with the purpose of the Lanham Act by precluding suits that are at the core of what Congress intended to permit. And *Conte Brothers*'s justification for these factors is not rooted in Congress's purpose in the Lanham Act, but in this Court's analysis of standing for antitrust claims brought under section 4 of the Clayton Act, 15 U.S.C. § 15. *See AGC*, 459 U.S. at 529. That analysis is inapposite to false advertising claims under the Lanham Act.

1. *The* Conte Brothers *test is likely to result in denial of standing where Congress intended to provide it.*

The only nexus requirement apparent from the language or structure of the Lanham Act is the requirement in section 43(a)(1) that a plaintiff "believe[] that he or she is or is likely to be damaged," 15 U.S.C. § 1125(a)(1). And the only basis for imposing a stricter nexus requirement is the presumption that Congress generally does not intend to permit suits for remote injuries. As expressed by this Court, it is "very unlikel[y] that Congress meant to allow all factually injured plaintiffs to recover," and "there is a point beyond which the wrongdoer should not be held liable." *Holmes*, 503 U.S. at 266 & n.10 (quotation marks omitted).

But the *Conte Brothers* factors go well beyond this. By elucidating four different factors related to causation, some of which appear redundant, *Conte Brothers* "makes it easier for courts to determine that multiple factors weigh against Lanham Act standing." Rebecca Tushnet, *Running the Gamut From A to B: Federal Trademark and False Advertising Law*, 159 U. Penn. L. Rev. 1305, 1376 (2011). Moreover, the last two factors – the speculativeness of damages, and risks of duplicative damages or complexity in apportioning damages – are not related to the presumption that there is some remote "point beyond which the wrongdoer should not be held liable." *Holmes*, 503 U.S. at 266 n.10 (quotation marks omitted). These factors can preclude – and have precluded – suits for even the

most direct consequences of a wrongdoer's actions when there will be difficulty proving or apportioning damages. However, there is no reason to presume that Congress ordinarily intends to preclude suits in such circumstances, much less that it did so in a provision that, on its face, requires only that a person "believe[] that he or she is or is likely to be damaged." 15 U.S.C. § 1125(a)(1).

Indeed, courts have applied *Conte Brothers* in a manner that suggests *no one*, including direct competitors, can sue when a false advertisement impacts a market with many competitors because of the difficulty all would have in proving damages. That result is plainly *not* what Congress intended.

In *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156 (11th Cir. 2007), for example, the Eleventh Circuit applied the *Conte Brothers* test to hold that a Burger King franchisee lacked prudential standing to sue McDonald's for false advertising. The Burger King franchisee alleged that McDonald's had falsely advertised that all McDonald's customers who participated in various promotional games "had a fair and equal opportunity to win the offered prizes" even after learning its promotional games had been rigged. *Id.* at 1159. The court found the Burger King franchisee lacked standing even though the court concluded that the franchisee had alleged the type of injury the Lanham Act was intended to address and there was "no 'identifiable class' of persons that [was] *more* proximate to the claimed injury" than a fast food franchisee like the plaintiff. *Id.* at 1171.

The court relied on the second, fourth and fifth *Conte Brothers* factors to deny standing. In evaluating each of these factors, it focused on the numerous competitors in the fast food industry. The court concluded it would be too difficult for the plaintiff to prove that the McDonald's promotional campaign took business away from Burger King, "as opposed to one of numerous other fast food competitors," *id.* at 1169 (discussing second factor), that damages were speculative because "the fast food market consists of *many* competitors, only two of which are McDonald's and Burger King," *id.* at 1171, and that the risk of duplicative damages was too great because if plaintiff had standing "then every fast food competitor of McDonald's . . . would *also* have prudential standing to bring such a claim," *id.* at 1172.

Similarly, a district court held that a furniture store lacked standing to sue a competitor for falsely advertising that its sale was a "going-out-of-business" sale. The district court reasoned that the plaintiff was "no different than the myriad of furniture stores that could have brought this claim." *Furniture "R" Us, Inc. v. Leath Furniture, LLC*, No. 07-23321-civ, 2008 WL 4444007, at *5 (S.D. Fla. Sept. 26, 2008). In the court's view, this meant the plaintiff lacked standing even though it was one of the entities most proximately injured by the advertisements. *Id.*

The reasoning of these courts likely "would prevent any party from having standing to sue another party for false advertising whenever those

parties compete in a large market or whenever the defendant's false advertisements affect a large number of similarly situated parties." Gerald P. Meyer, Note, *Standing Out: A Commonsense Approach to Standing for False Advertising Suits Under Lanham Act Section 43(a)*, 2009 U. Ill. L. Rev. 295, 324. This likelihood would increase in a market with multiple small competitors, rather than a single dominant competitor, since it is harder to determine damages for any individual competitor in such a market. *See* Tushnet, *supra* at 1377-78.

That would rule out most suits for false advertisements that an entity makes about its own product, rather than a particular competitors' product, because such advertisements would injure all competitors in the market, making it difficult to prove and apportion damages. But claims challenging false advertising about an advertiser's own product are unquestionably among those Congress intended to permit. *See* 15 U.S.C. § 1125(a)(1)(B). Indeed, such cases – where an advertiser misrepresents the nature or qualities of its own goods – were the principal, and perhaps exclusive, focus of section 43(a) when it was originally enacted in 1946 and remained so until Congress broadened the provision in 1988. *See, e.g.*, *Bernard Food Indus., Inc. v. Dietene Co.*, 415 F.2d 1279, 1283 (7th Cir. 1969); *see also* 15 U.S.C. § 1125(a) (1946) (providing claim against "[a]ny person who shall affix, apply, or annex or use in connection with any goods or services, . . . a false designation of origin, or any false description or representation . . . ."). A test that eviscerates such

claims cannot possibly be the right one. It cannot be grounded, as it must be, in an accurate assessment of the interests Congress intended to protect through the false advertising provision.

2. The AGC *analysis does not apply to false advertising claims under the Lanham Act.*

This Court's analysis of standing under section 4 of the Clayton Act in *AGC* does not justify adoption of the *Conte Brothers* test, as the Third Circuit concluded it does. This Court's analysis in *AGC* was principally based on factors unique to antitrust law. And even for antitrust law, this Court did not adopt a "balancing" test that could eliminate all plaintiffs for particular claims, as the *Conte Brothers* test can.

a. Most of this Court's analysis in *AGC* was antitrust-specific.

In deriving the factors it employed in *AGC*, this Court started from the premise that the substantive provision at issue – a statute banning every contract that restrains trade – could not possibly mean what it says; it then turned to legislative history to analyze congressional intent. *AGC*, 459 U.S. at 530-31. It concluded that Congress intended to incorporate common law principles of proximate causation. *Id.* at 531.

Only one of the factors the Court articulated, however, is a standard part of the analysis of proximate cause under the common law: the directness or indirectness of the asserted injury. *See, e.g.*, *Holmes*, 503 U.S. at 269 (focusing on directness). The other factors are not. For example,

the Court discussed "the potential for duplicative recovery or complex apportionment of damages," *AGC*, 459 U.S. at 545, but this is not part of a common-law proximate cause inquiry. C. Douglas Floyd, *Antitrust Victims Without Antitrust Remedies*, 82 Minn. L. Rev. 1, 43 (1997). The Court thus grounded its examination of this factor in part on the existence of mandatory treble damages under the antitrust laws and a particular concern about the complexity of antitrust actions. *AGC*, 459 U.S. at 544; *cf. Ill. Brick Co. v. Illinois*, 431 U.S. 720, 729 (1977) (holding that Congress did not intend to permit duplicative recovery under the antitrust laws).

In assessing standing, the *AGC* Court also pointed to the speculativeness of damages. *AGC*, 459 U.S. at 542-43. But if considered as an independent factor, the speculativeness of damages is not related to proximate cause. It is referenced in proximate cause cases as derivative of a discussion of directness, because indirect claims are more likely to be speculative. *AGC* itself discussed speculativeness in combination with a discussion of directness. *Id.* Arguably, then, speculativeness should not be an independent factor even for antitrust standing (though, the speculativeness of damages will, of course, be relevant on the merits). *See* Floyd, *supra* at 43. To the extent speculativeness is considered an independent factor in assessing antitrust standing, that must be because of some unique facet of the antitrust laws.

Indeed, the Court's analysis of antitrust standing as a whole appears to have been partly rooted in the overarching goal of antitrust law: "to protect competition not competitors," *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 488 (1977) (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 320 (1962)). So long as enough entities have standing to ensure that competition is protected, this goal is served: "[t]he existence of an identifiable class of persons whose self-interest would normally motivate them to vindicate the public interest in antitrust enforcement diminishes the justification in allowing a more remote party . . . to perform the office of private attorney general." *AGC*, 459 U.S. at 542. This explanation also makes clear that even antitrust standing should not be analyzed by *balancing* the *AGC* factors; these factors cannot be used to rule out standing of the group of plaintiffs necessary to vindicate the public interest.

b. The *AGC* analysis does not apply to false advertising claims under the Lanham Act.

The Court's analysis in *AGC* should not be applied to assess standing for false advertising claims under the Lanham Act. The only context in which this Court has applied *AGC* outside the context of antitrust claims is civil RICO, where Congress adopted the same statutory language as that in the Clayton Act, knowing the interpretation this Court had given it. *Holmes*, 503 U.S. at 269. And there, the Court emphasized that the alleged injury was not direct; it referenced complex

apportionment or duplicativeness of damages as concerns that would be reduced by requiring directness, not as independent reasons to deny standing. *Id.* Moreover, the Court made clear that an assessment of proximate cause is context-specific. *Id.* at 268. It did not suggest that factors such as duplicativeness, complexity, or speculativeness of damages can be balanced to assess prudential standing even in civil RICO cases, much less more generally. It should not adopt such a balancing test here.

The antitrust justifications for the *AGC* factors are not paralleled under the Lanham Act. The purpose of the Lanham Act includes protection of directly injured commercial parties, 15 U.S.C. § 1127, not just protection of the public interest, as is the case under the antitrust laws. Thus, directly injured commercial parties should be able to sue regardless of whether someone else is able to sue to vindicate the public interest. The Lanham Act also aims to protect the interest of consumers, *see supra* at 12, but, unlike the antitrust law, has not been held to confer standing upon consumers. As a result, there is a need for broader standing for commercial interests under the Lanham Act than is necessary under the antitrust laws to ensure there are adequate surrogates to protect those interests.

Additionally, there is nothing in the false advertising context, as there is in antitrust law, that suggests a particular concern with duplicative, speculative or tough-to-apportion damages, or the existence of particularly complex trials. While there

is a treble damages provision, it is not mandatory, and courts can refrain from awarding treble damages if there is a risk of duplicative damages. *See* 15 U.S.C. § 1117(a)(3). Because most of the *AGC* factors are not independent parts of the common-law requirement of proximate cause, their application to false advertising claims cannot be justified by a presumption that Congress intended to incorporate common-law requirements. Moreover, even the basis this Court provided for incorporating common-law requirements is inapplicable to false advertising claims under the Lanham Act. The substantive cause of action for false advertising under the Lanham Act is one that can be interpreted to mean what it says, and we are not aware of any legislative history indicating that Congress expressly intended to incorporate common-law causation principles. *Compare AGC*, 459 U.S. at 531-33.

Indeed, in many respects, Congress clearly intended to move beyond the common law. *See, e.g.*, S. Rep. 79-1333, at 3, *reprinted in* 1946 U.S.C.C.A.N. at 1274 (purpose included making trademark law "stronger and more liberal"); *U-Haul Int'l*, 681 F.2d at 1162; 5 McCarthy, *supra* § 27:31; Tushnet, *supra* at 1311. *Contra* Pet'r's Br. 16-18.[6] Moreover, arguably, if Congress had incorporated common-law

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[6] The Senate Report, pertaining to the 1988 amendments, said that standing should continue to be decided on a case-by-case basis, S. Rep. No. 100-115, at 41, *reprinted in* 1988 U.S.C.C.A.N. at 5604 (cited in Pet'r's Br. 18), but it did not endorse any particular requirements, much less those *Conte Brothers* subsequently adopted.

causation principles, the relevant principles would stem from common-law trademark cases, since "[t]he Lanham Act was conceived of as a federal trademark statute," Tushnet, *supra* at 1309, and the statutory language for standing is the same for false advertising and false association claims, *see* 15 U.S.C. § 1125(a)(1). But under the common law of trademarks, there is little requirement of proof of injury beyond misuse of the mark, as Judge Learned Hand explained. *Yale Elec. Corp. v. Robertson*, 26 F.2d 972, 974 (2d Cir. 1928) (borrowing another's mark "is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator . . . ."). Similarly, for trademark claims under the Lanham Act, courts require little evidence beyond misuse of the mark – only limited evidence of likely confusion, not evidence that the confusion will cause consumers to buy a product other than the plaintiff's. Tushnet, *supra* at 1311, 1313-15.

While it is nonetheless reasonable to presume that "the judicial remedy cannot encompass every conceivable harm that can be traced to alleged wrongdoing," *AGC*, 459 U.S. at 536, there is no basis to adopt any causation requirements beyond what is necessary to avoid that. The evidence suggests Congress did not intend to include additional requirements.

First, the language of section 43(a)(1) of the Lanham Act is even broader than that of section 4 of the Clayton Act. While the language of the Clayton Act is broad, it nonetheless sets forth an objective

requirement of a nexus between the antitrust violation and the injury. *See* 15 U.S.C. § 15 (applying to "any person who *shall be injured* . . . by reason of anything forbidden in the antitrust laws" (emphasis added)). In contrast, section 43(a)(1) of the Lanham Act specifies only that a plaintiff must "*believe*[] that he or she is or is *likely* to be damaged" by the alleged false advertising. *Id.* § 1125(a)(1) (emphasis added). While courts have concluded that a plaintiff's belief must be reasonable, use of the term "believe[]" emphasizes the broad scope Congress intended for section 43(a)(1). Similarly, use of the term "likely to be damaged," *id.*, indicates that Congress intended to allow even those claims based on difficult-to-quantify or threatened injuries. *See TrafficSchool.com*, 653 F.3d at 826 ("Because a likely injury is far less certain than an actual injury, plaintiffs need not prove the latter to establish the commercial injury necessary for Lanham Act standing.").[7]

Second, as explained above, application of *AGC*-type factors would lead to underprotection of core claims that Congress intended to encompass, often precluding anyone from suing for false advertisements in a market with many competitors. Petitioner asserts the reasonable interest test risks overprotection (without citing any cases that have

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[7] In the Second Circuit, plaintiffs seeking damages as opposed to an injunction will have to prove actual, as opposed to likely, damages. *See Johnson & Johnson*, 631 F.2d at 190. But this inquiry properly lies in the evaluation of the merits of the case, as opposed to standing.

applied the test too broadly), Pet'r's Br. 33-35, but fails to discuss underprotection at all.

Finally, the remedies available under section 43(a)(1) of the Lanham Act demonstrate the inapplicability of the *AGC* factors. Unlike section 4 of the Clayton Act, section 43(a)(1) of the Lanham Act is not limited to suits for damages. *See* 15 U.S.C. § 1116(a) (providing for injunctive relief). In fact, it is common for false advertising plaintiffs to request injunctive relief as the exclusive remedy. *See, e.g.*, *Ortho Pharm.*, 32 F.3d at 693; *Johnson & Johnson*, 631 F.2d at 188; *Frisch's Rest.*, 670 F.2d at 645.

The *AGC* factors are a particularly poor fit for statutory provisions allowing for injunctive relief. Indeed, this Court held that the *AGC* factors do not apply to suits brought under section 16 of the Clayton Act, 15 U.S.C. § 26, the statutory provision providing standing for antitrust suits seeking injunctive relief. *Cargill, Inc. v. Monfort of Colo., Inc.*, 479 U.S. 104, 111 & n.6 (1986). In discussing the *AGC* factors, *Cargill* noted, "the difference in the remedy each section provides means that certain considerations relevant to a determination of standing under § 4 are not relevant under § 16." *Id.* "[S]tanding under § 16 raises no threat of multiple lawsuits or duplicative recoveries" because "'one injunction is as effective as 100, and . . . 100 injunctions are no more effective than one.'" *Id.* (quoting *Hawaii v. Std. Oil Co.*, 405 U.S. 251, 261 (1972)).

Just as in the antitrust context, false advertising suits seeking injunctive relief raise "no threat of

multiple lawsuits or duplicative recoveries." *Id.* And precluding many of these suits through the *Conte Brothers* test would undermine the efficacy of section 43(a)(1) by allowing false advertising to continue unhampered to the detriment of both consumers and commercial entities:

> Since § 43(a) was passed to protect consumers as well as competitors, the courts . . . should not be reluctant to allow a commercial plaintiff to obtain an injunction even where the likelihood of provable impact on the plaintiff may be subtle and slight. . . . An injunction, as opposed to money damages, is no windfall to the commercial plaintiff. An injunction protects both consumers and the commercial plaintiff from continuing acts of false advertising.

5 McCarthy, *supra* § 27:31.

In summary, the *Conte Brothers* test has added additional factors to the prudential standing analysis that depart dramatically from the text of the Lanham Act, are not based on any general background principles regarding prudential standing, and will eliminate claims within the core of the false advertising provision. The reasonable interest test, in contrast, is closely tied to the principles of prudential standing and the intent of the Lanham Act, without adding additional, unnecessary barriers to challengers of false advertising.

CONCLUSION

For the foregoing reasons, this Court should adopt the reasonable interest test to assess standing for false advertising claims under section 43(a)(1) of the Lanham Act.

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AMICUS CURIAE BRIEF

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LEXMARK INTERNATIONAL, INC.,
Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

DRI – THE VOICE OF THE DEFENSE BAR'S *AMICUS CURIAE* BRIEF IN SUPPORT OF PETITIONER

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TABLE OF CONTENTS

Page(s)

TABLE OF AUTHORITIES iii

INTEREST OF AMICUS CURIAE DRI 1

SUMMARY OF THE ARGUMENT 2

ARGUMENT I 5

The categorical test produces clear holdings and predictable results and best accomplishes the Lanham Act's purpose of protecting against unfair competition. 5

A. The categorical test will produce clear holdings and predictable results. 6

B. The categorical test best accomplishes the Lanham Act's purpose of protecting against unfair competition. 9

ARGUMENT II 12

The Reasonable Interest Test Is The Most Malleable And Thus Produces The Most Unpredictable Outcomes. 12

ARGUMENT III 16

The *Associated General Contractors* Test Is Less Predictable Because The Factors Are Vague And It Does Not Ensure That Direct Competitors Have Standing 16

CONCLUSION 20

TABLE OF AUTHORITIES

Page(s)

CASES

Alden v. Maine,
527 U.S. 706 (1999) 10

Alfred Dunhill Limited v. Interstate Cigar Company, Inc.,
499 F.2d 232 (2nd Cir.1974) 10

Associated Gen. Contractors of California, Inc. v. California State Council of Carpenters,
459 U.S. 519, 103 S.Ct. 897, 74 L.Ed.2d 723 (1983) ..... *passim*

Barrus v. Sylvania,
55 F.3d 468 (9th Cir. 1995) 5

Bernard v. Donat,
11-CV-03414-RMW, 2012 WL 525533 (N.D. Cal. Feb. 16, 2012) 5

Bittinger v. Tecumseh Products Co.,
123 F.3d 877 (6th Cir. 1997) 8

Camel Hair & Cashmere Inst. of Am., Inc. v. Associated Dry Goods Corp.,
799 F.2d 6 (1st Cir. 1986) 12, 13

Coca-Cola Co. v. Tropicana Prods., Inc.,
690 F.2d 312 (2d Cir.1982) 3, 12

Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc.,
165 F.3d 221 (3d Cir. 1998) ..... *passim*

Erie R. Co. v. Tompkins,
304 U.S. 64 (1938) 9

F.E.R.C. v. Mississippi,
456 U.S. 742 (1982) 11

Famous Horse Inc. v. 5th Ave. Photo Inc.,
624 F.3d 106 (2d Cir. 2010) 2, 13

Ford v. NYLCare Health Plans of Gulf Coast, Inc.,
301 F.3d 329 (5th Cir. 2002) 4, 17

Frisch's Restaurants, Inc. v. Elby's Big Boy of Steubenville, Inc.,
670 F.2d 642 (6th Cir. 1982) 2, 3

Halicki v. United Artists Communications, Inc.,
812 F.2d 1213 (9th Cir.1987) 3, 10

Harold H. Huggins Realty, Inc. v. FNC, Inc.,
634 F.3d 787 (5th Cir. 2011) 9

Jack Russell Terrier Network of N. Ca. v. Am. Kennel Club, Inc.,
407 F.3d 1027 (9th Cir. 2005) 5

L.S. Heath & Son, Inc. v. AT & T Info. Sys., Inc.,
9 F.3d 561 (7th Cir. 1993) 6

MindGames, Inc. v. W. Pub. Co., Inc.,
218 F.3d 652 (7th Cir. 2000) 6, 7, 20

Ortho Pharm. Corp. v. Cosprophar, Inc.,
32 F.3d 690 (2d Cir. 1994) 3, 12, 13

PPX Enters., Inc. v. Audiofidelity, Inc.,
746 F.2d 120 (2d Cir.1984) 3, 12

Phoenix of Broward, Inc. v. McDonald's Corp.,
489 F.3d 1156 (11th Cir. 2007) . . 4, 17, 18, 19, 20

Procter & Gamble Co. v. Amway Corp.,
242 F.3d 539 (5th Cir. 2001) 4, 17

Proctor & Gamble Co. v. Haugen,
222 F.3d 1262 (10th Cir. 2000) 9

Stanfield v. Osborne Indus., Inc.,
52 F.3d 867 (10th Cir. 1995) 2, 6

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697 F.3d 387 (6th Cir. 2012), *cert. granted*, 133 S. Ct. 2766 (U.S. 2013) 10, 13

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653 F.3d 820 (9th Cir. 2011) 5, 6

U-Haul Int'l, Inc. v. Jartran, Inc.,
681 F.2d 1159 (9th Cir.1982) 2, 5, 9

United States v. Lopez,
514 U.S. 549 (1995) 11

Waits v. Frito-Lay, Inc.,
978 F.2d 1093 (9th Cir. 1992) 2, 3, 5, 10

STATUTES

15 U.S.C. §§ 1051 *et seq.* (Lanham Act) 2

15 U.S.C. § 1125(a)(1)(B) (section 43(a)) 1, 2, 11, 15, 19

15 U.S.C. § 1127 . . . . . 2, 8, 9

RULES

Sup. Ct. R. 37 1

Sup. Ct. R. 37.6 1

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Kathleen M. Sullivan, The Justices of Rules and Standards, 106 Harv. L. Rev. 22 (1992) 7, 8

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INTEREST OF AMICUS CURIAE DRI[1]

Amicus curiae DRI—the Voice of the Defense Bar, is a 22,500-member international association of defense lawyers who represent individuals, corporations, insurance carriers, and local governments involved in civil litigation. DRI has long been a voice for a fair and just system of civil litigation, seeking to ensure that it operates to effectively, expeditiously, and economically resolve disputes for litigants. To that end, DRI participates as amicus curiae in cases that raise issues of importance to its membership and to the judicial system. This is such a case.

DRI's interest in this case stems from its members' need to advise clients when to bring or defend against suits under the false advertising provision of the Lanham Act (15 U.S.C. § 1125(a)(1)(B)) and from their representation of clients engaged in litigation under the Act. DRI members' extensive litigation experience counsels that, when a legal test – in this case, for standing under the Lanham Act – amounts to a standard that includes undefined terms or when it involves the consideration of multiple factors, the outcome is less predictable and thus, the job of advising or defending clients increases in difficulty. By contrast, a bright line rule, such as the categorical test, which limits standing for bringing false advertising claims to

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[1] Pursuant to Rule 37.6, amicus certifies that no counsel for a party authored this brief in whole or in part and that no person or entity, other than amicus, its members, or its counsel, has made a monetary contribution to the preparation or submission of this brief. The parties have filed written consent to the filing of amicus briefs pursuant to Rule 37.

actual competitors, results in more predictability and consistency of outcomes. DRI believes that a categorical test will cut down on the amount and length of litigation, render the outcome more predictable, and help assure that like cases are treated alike. Here, a bright-line rule limiting standing to competitors is also the most consistent with the purpose of the Lanham Act, which is to prevent unfair competition. See 15 U.S.C. § 1127.

SUMMARY OF THE ARGUMENT

Currently, the federal circuit courts of appeals have adopted one of three different tests for standing under the Lanham Act, 15 U.S.C. §§ 1051 *et seq*. Under the categorical test, "simple claims of false representations in advertising are actionable under section 43(a) [15 U.S.C. § 1125(a)(1)(B)] when brought by competitors of the wrongdoer . . . ." *Waits v. Frito-Lay, Inc.*, 978 F.2d 1093, 1108 (9th Cir. 1992). In DRI's experience, the strength of the categorical test is that it represents a straightforward rule that is easier to apply than the multi-factor or reasonable interest tests. The categorical test will therefore produce clear holdings and predictable results. Additionally, because the categorical test limits standing to direct competitors, it also most directly accomplishes what Congress intended in passing the Act, that is, to protect a litigant against unfair competition. See 15 U.S.C. § 1127; *U-Haul Int'l, Inc. v. Jartran, Inc.*, 681 F.2d 1159, 1162 (9th Cir.1982); *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 873 (10th Cir. 1995); *Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 236 (3d Cir. 1998); *Famous Horse Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 111 (2d Cir. 2010); *Frisch's Restaurants,*

Inc. v. Elby's Big Boy of Steubenville, Inc., 670 F.2d 642, 646 (6th Cir. 1982). The categorical test also properly limits standing under the Lanham Act to direct competitors so as not to subsume state tort law. Without such a limitation, the Lanham Act may quickly become a federal statute creating the tort of misrepresentation. *Waits*, 978 F.2d at 1108, quoting *Halicki v. United Artists Communications, Inc.*, 812 F.2d 1213, 1214 (9th Cir.1987).

In contrast to the straightforward categorical approach, some circuits apply the "reasonable interest" test to establish standing, under which "a plaintiff must demonstrate a 'reasonable interest to be protected' against the advertiser's false or misleading claims, and a 'reasonable basis' for believing that this interest is likely to be damaged by the false or misleading advertising." *Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994), quoting *PPX Enters., Inc. v. Audiofidelity, Inc.*, 746 F.2d 120, 125 (2d Cir.1984) and *Coca-Cola Co. v. Tropicana Prods., Inc.*, 690 F.2d 312, 316 (2d Cir.1982). Further, "[t]he 'reasonable basis' prong embodies a requirement that the plaintiff show both likely injury and a causal nexus to the false advertising." (*Id.*)

The reasonable interest test is the most problematic because its terms are amorphous and malleable. In addition, it allows standing to expand beyond direct competitors, contrary to the purpose of the Lanham Act. No clear definition of what constitutes a reasonable interest, reasonable basis, or sufficient causal nexus exists, thus leaving district courts with little guidance in rendering their decisions, and producing unpredictable outcomes. Finally, when the

standard is malleable and affords broad discretion, the costs and difficulties of litigation increase.

Finally, several circuits have adopted a multi-factor test based on the test for antitrust standing set forth in *Associated Gen. Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 103 S.Ct. 897, 74 L.Ed.2d 723 (1983). See *Conte*, 165 F.3d 221; *Ford v. NYLCare Health Plans of Gulf Coast, Inc.*, 301 F.3d 329, 337 (5th Cir. 2002), citing *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 562-63 (5th Cir. 2001) ("Although technically distinct, these five factors can be distilled into an essential inquiry, i.e., whether, in light of the competitive relationship between the parties, there is a sufficiently direct link between the asserted injury and the alleged false advertising.")

When the Eleventh Circuit applied this multi-factor test in *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156, 1163 (11th Cir. 2007), however, it held that a direct competitor did not have standing under the Act. The decision underscores the unpredictability inherent in a multi-factor standard that was intended to be applied in antitrust cases, not in the context of the Lanham Act. Employing such a "flexible approach" here grants courts overly broad discretion to allow a wider class of plaintiffs to bring suit – plaintiffs who are beyond the scope of the Lanham Act's purpose of protecting against unfair competition. Additionally, a standard like the multi-factor test increases the length and cost of litigation.

Thus, DRI urges this Court to adopt the categorical test, which will cut down on the amount and length of

litigation, render the outcome more predictable, and help assure that like cases are treated alike.

ARGUMENT I

The categorical test produces clear holdings and predictable results and best accomplishes the Lanham Act's purpose of protecting against unfair competition.

Under the categorical test, "simple claims of false representations in advertising are actionable under section 43(a) when brought by competitors of the wrongdoer . . . ." *Waits*, 978 F.2d at 1109, citing *U-Haul*, 681 F.2d at 1162. To establish standing, a plaintiff must show: (1) a commercial injury based upon a misrepresentation about a product; and (2) that the injury is "competitive," or harmful to the plaintiff's ability to compete with the defendant. *Jack Russell Terrier Network of N. Ca. v. Am. Kennel Club, Inc.*, 407 F.3d 1027, 1037 (9th Cir. 2005), citing *Barrus v. Sylvania*, 55 F.3d 468, 470 (9th Cir. 1995). See also *Bernard v. Donat*, 11-CV-03414-RMW, 2012 WL 525533 (N.D. Cal. Feb. 16, 2012) ("The focus of the 'competitive injury' inquiry is whether the statements in issue tended to divert business from the plaintiff to the defendant."). When a plaintiff competes directly with a defendant, "a misrepresentation will give rise to a presumed commercial injury that is sufficient to establish standing." *TrafficSchool.com, Inc. v. Edriver Inc.*, 653 F.3d 820, 827 (9th Cir. 2011). The presumption arises from the fact that "[c]ompetitors vie for the same dollars from the same consumer group, and a misleading ad can upset their relative

competitive positions." (*Id.* (internal citation and punctuation omitted)).

In addition to the Ninth Circuit, this test has been adopted by the Seventh and Tenth Circuits. See *L.S. Heath & Son, Inc. v. AT & T Info. Sys., Inc.*, 9 F.3d 561, 575 (7th Cir. 1993) (In order to have standing to allege a false advertising claim, the plaintiff must assert a discernible competitive injury); *Stanfield*, 52 F.3d at 873 ("A false advertising claim implicates the Lanham Act's purpose of preventing unfair competition. Thus, to have standing for a false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury.")

A. The categorical test will produce clear holdings and predictable results.

In DRI's experience, the strength of the categorical test is that it represents a straightforward rule that is easier to apply than the multi-factor and reasonable interest tests (discussed below) and it produces clear holdings and thus predictable results. Gerald P. Meyer, Standing Out: A Commonsense Approach to Standing for False Advertising Suits Under Lanham Act Section 43(a), 2009 U. Ill. L. Rev. 295, 313 (2009).; Vincent N. Palladino, Lanham Act "False Advertising" Claims: What Is A Plaintiff to Do?, 101 Trademark Rep. 1601, 1640 (2011). When the law is clear, plaintiffs are less inclined to bring frivolous claims and more likely to seek settlement. Meyer, 2009 U. Ill. L. Rev. at 313. Thus, the amount and length of litigation, along with concomitant costs, are reduced. *MindGames, Inc. v. W. Pub. Co., Inc.*, 218 F.3d 652, 657 (7th Cir. 2000).

A rule like the categorical test "singles out one or a few facts and makes it or them conclusive of legal liability; a standard permits consideration of all or at least most facts that are relevant to the standard's rationale. A speed limit is a rule; negligence is a standard." (*Id.* at 657). Balancing tests and totality-of-the-circumstances tests also constitute standards that allow for "the decrease of errors of under- and over-inclusiveness by giving the decisionmaker more discretion than do rules," Kathleen M. Sullivan, The Justices of Rules and Standards, 106 Harv. L. Rev. 22, 58-59 (1992). But they do so at a significant litigation cost. Such tests, like all standards, tend to be "vague and open-ended[,] they make business planning difficult, invite the sometimes unpredictable exercise of judicial discretion, and are more costly to adjudicate." *MindGames*, 218 F.3d at 657. "Standards allow the decisionmaker to take into account all relevant factors or the totality of the circumstances. Thus, the application of a standard in one case ties the decisionmaker's hand in the next case less than does a rule – the more facts one may take into account, the more likely that some of them will be different the next time." Sullivan, 106 Harv. L. Rev. 22, 59 (1992). On the other hand, a rule, like the categorical test under consideration here, "once formulated, afford[s] decisionmakers less discretion than do standards." (*Id.* at 57). "Rules aim to confine the decisionmaker to facts, leaving irreducibly arbitrary and subjective value choices to be worked out elsewhere." (*Id.* at 58).

It is the view of amicus curiae DRI and those who favor rules that "rules are fairer than standards," because "rules require decisionmakers to act consistently, treating like cases alike." (*Id.* at 62). Of

perhaps greater importance to those in the business community whom DRI members advise, "rules afford certainty and predictability to private actors, enabling them to order their affairs productively." (*Id.*). Conversely, "[s]tandards produce uncertainty, thereby chilling socially productive behavior." (*Id.*). As an added benefit, "rules promote economies for the legal decisionmaker by minimizing the elaborate, time-consuming, and repetitive application of background principles to facts." (*Id.* at 63). Even the Sixth Circuit has recognized that "[r]ules are the normal method used in a jurisprudence of judicial restraint; broad standards and balancing tests are the usual mechanism of a jurisprudence that allows individual judges to choose for themselves the preferred result in each case and to give expression to their feelings, intuition, and sense of justice." *Bittinger v. Tecumseh Products Co.*, 123 F.3d 877, 881 (6th Cir. 1997). Thus, another advantage of the categorical test is that it does not depend on the preferences of individual judges.

Based on the extensive litigation experience of its members, amicus curiae DRI believes that the categorical test for determining standing under the Lanham Act, which limits standing to direct competitors, is the most in line with the Act's purpose of protecting against unfair competition. See 15 U.S.C. § 1127. This straightforward categorical test is easy to apply. It will therefore lead to more predictable results and decrease the amount and cost of litigation. Conversely, if a test has undefined and malleable terms, as does the reasonable interest test, or if a test requires the consideration of multiple factors, outcomes will be less predictable. Litigation costs will increase using such an approach both because the test will

require a broader factual inquiry and because the uncertainty it creates will mean more litigation to resolve the issue. It will therefore be harder for DRI members to advise their clients on whether to bring or defend against a suit. And the cost and time required to litigate the standing issue will likely increase.

B. The categorical test best accomplishes the Lanham Act's purpose of protecting against unfair competition.

Because the categorical test limits standing to direct competitors, it also most directly accomplishes what Congress intended in passing the Act, that is, protecting against unfair competition. See 15 U.S.C. § 1127. Congress intended to allow false advertising suits by competitors "to stop the kind of unfair competition that consists of lying about goods or services, when it occurs in interstate commerce." *U-Haul*, 681 F.2d at 1162. See also *Proctor & Gamble Co. v. Haugen*, 222 F.3d 1262, 1272 (10th Cir. 2000), citing 5 McCarthy on Trademarks and Unfair Competition § 27:7 (4th ed.) ("As a general matter, the drafters and promoters of the original [Lanham Act], sought to create a general federal law of unfair competition to protect competing companies in the wake of the Supreme Court's decision in *Erie R. Co. v. Tompkins*, 304 U.S. 64 (1938), which was thought to have eliminated the existing body of federal unfair competition law.") It follows that "[t]he Lanham Act incorporates prudential restrictions on standing that ensure that only persons whom Congress intended to protect by passing the Lanham Act have standing to sue under it." *Harold H. Huggins Realty, Inc. v. FNC, Inc.*, 634 F.3d 787, 796 (5th Cir. 2011). Thus, although

the categorical approach is narrow, it ensures that standing is limited to direct competitors, who are best suited to bring false advertising claims. Meyer, 2009 U. Ill. L. Rev. at 313. In this case in particular, the Sixth Circuit found that, "Static Control's claim . . . for false advertising . . . would fail under this stricter standard, because Static Control and Lexmark are not actual competitors." *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387, 410 (6th Cir. 2012), cert. granted, 133 S. Ct. 2766 (U.S. 2013).

The categorical test also properly limits standing under the Lanham Act to competitors so as not to subsume state tort law. Without such a limitation, the Lanham Act is likely to quickly become a federal statute creating the tort of misrepresentation. *Waits*, 978 F.2d at 1108, quoting *Halicki*, 812 F.2d at 1214. But the Lanham Act was "not designed to cure all conceivable commercial evils," and plaintiffs that are denied standing have other state law remedies in tort or contract. *Halicki*, 812 F.2d at 1215, citing *Alfred Dunhill Limited v. Interstate Cigar Company, Inc.*, 499 F.2d 232 (2nd Cir.1974). See also Meyer, 2009 U. Ill. L. Rev. at 312-13.

Because the Lanham Act was not meant to preempt state law causes of action, an over-inclusive approach to standing is contrary to its purpose and violates principles of federalism. Diane Taing, Competition for Standing: Defining the Commercial Plaintiff Under Section 43(a) of the Lanham Act, 16 Geo. Mason L. Rev. 493, 510-511 (2009); Meyer, 2009 U. Ill. L. Rev. at 314. See *Alden v. Maine*, 527 U.S. 706, 748 (1999) ("Although the Constitution grants broad powers to Congress, our federalism requires that Congress treat

the States in a manner consistent with their status as residuary sovereigns and joint participants in the governance of the Nation."); *United States v. Lopez*, 514 U.S. 549, 581 (1995) ("States may perform their role as laboratories for experimentation to devise various solutions where the best solution is far from clear."); *F.E.R.C. v. Mississippi*, 456 U.S. 742, 788 (1982) ("Courts and commentators frequently have recognized that the 50 States serve as laboratories for the development of new social, economic, and political ideas.")

Additionally, over-enforcement of the Act through a more inclusive test for standing will have a chilling effect on the amount and quality of information available in the marketplace. Acting on the advice of counsel, businesses will be disinclined to put out any message that could be construed as false advertising out of a desire to avoid litigation. The end result will be less specific and less helpful information for consumers. See Kevin M. Lemley, Resolving the Circuit Split on Standing in False Advertising Claims and Incorporation of Prudential Standing in State Deceptive Trade Practices Law: The Quest for Optimal Levels of Accurate Information in the Marketplace, 29 U. Ark. Little Rock L. Rev. 283, 288 (2007) ("Every section 43(a) lawsuit will threaten the defendant's ability to supply information to the market, and if section 43(a) is too expansive, firms can stifle their competitors' ability to supply information to the market"; overenforcement thus results in "a net reduction of information in the market, causing it to fall below optimal levels.")

ARGUMENT II

The Reasonable Interest Test Is The Most Malleable And Thus Produces The Most Unpredictable Outcomes.

Under the "reasonable interest" test, to establish standing, "a plaintiff must demonstrate a 'reasonable interest to be protected' against the advertiser's false or misleading claims, and a 'reasonable basis' for believing that this interest is likely to be damaged by the false or misleading advertising." *Ortho*, 32 F.3d at 694, quoting *PPX Enters*, 746 F.2d at 125 and *Coca-Cola*, 690 F.2d at 316. Further, "[t]he 'reasonable basis' prong embodies a requirement that the plaintiff show both likely injury and a causal nexus to the false advertising." (*Id.*).

The reasonable interest test is "a flexible approach," under which a plaintiff "need not demonstrate that it is in direct competition with the defendant or that it has definitely lost sales because of the defendant's advertisements." (*Id.*, quoting *Coca-Cola Co.*, 690 F.2d at 316). Additionally, "[t]he likelihood of injury and causation will not be presumed, but must be demonstrated in some manner." (*Id.*). The Second Circuit has also "tended to require a more substantial showing where the plaintiff's products are not obviously in competition with defendant's products, or the defendant's advertisements do not draw direct comparisons between the two." (*Id.*).

This test has been adopted in the First and Second Circuits and by the Sixth Circuit in this case. See *Camel Hair & Cashmere Inst. of Am., Inc. v. Associated*

Dry Goods Corp., 799 F.2d 6 (1st Cir. 1986) (A nonprofit corporation formed by clothing manufacturers to promote the use of camel hair and cashmere fibers, though not itself injured by defendant clothing marketers' alleged mislabeling as to percentage of cashmere in their products, could bring an action seeking preliminary injunction against marketers under the Lanham Act on behalf of its members); *Ortho*, 32 F.3d at 691-92 (The plaintiffs products were not obviously in competition with the defendant's where one is a drug requiring a doctor's prescription and the other is a cosmetic available in a pharmacy, and therefore, because the plaintiff failed to submit proof demonstrating that consumers viewed the defendant's cosmetics as a comparable substitute for the plaintiff's drugs, the plaintiff lacked standing to bring a false advertising claim under the Lanham Act); *Famous Horse*, 624 F.3d 106 (The plaintiff, operator of chain of discount brand-name clothing stores, had standing to sue supplier who sold counterfeit Rocawear brand jeans, even though the plaintiff did not own the Rocawear trademark, because the parties were "in essence competitors," and because the plaintiff alleged that its reputation as a discount store was harmed because consumers believed that it sold Rocawear jeans at inflated prices and because consumers would believe that the plaintiff sold counterfeit clothes); *Static Control*, 697 F.3d at 411 (Where parties are not direct competitors, plaintiff component manufacturer has standing to sue because it had "alleged a cognizable interest in its business reputation and sales" to remanufacturers of toner cartridges "and sufficiently alleged that these interests were harmed" by defendant printer and toner manufacturer's statements to the

remanufacturers that plaintiff "was engaging in illegal conduct.")

The reasonable interest test is the most problematic because its terms are amorphous and malleable. Defining "reasonable" when applying the reasonable interest test is an imprecise science. When it adopted the multi-factor test, the Third Circuit recognized that, having previously applied a reasonable interest test, its "decisions have carried forward this prudential 'reasonable interest' requirement and have grappled with defining the term with greater precision." *Conte*, 165 F.3d at 231. The circuits employing the reasonable interest test are still grappling with the meaning of "reasonable"; no clear definition of what constitutes a reasonable interest, reasonable basis, or sufficient causal nexus exists, thus leaving district courts with little guidance in rendering their decisions. Gregory Apgar, Prudential Standing Limitations on Lanham Act False Advertising Claims, 76 Fordham L. Rev. 2389, 2424 (2008).

Moreover, because this test does not require that plaintiffs be competitors, contrary to Congress's express intent, "persons remote from the anticompetitive injury and the commercial activity giving rise to the injury may nevertheless have standing to sue for false advertising based on a derivative claim of harm." Taing, 16 Geo. Mason L. Rev. at 510. Finally, the reasonable interest test allows noncompetitors to sue even where other parties are better suited to bring the claim. Meyer, 2009 U. Ill. L. Rev. at 318. The reasonable interest test is thus overboard, conferring standing beyond the purpose of the Lanham Act and increasing the burden on the

federal court system. Taing, 16 Geo. Mason L. Rev. at 510; Meyer, 2009 U. Ill. L. Rev. at 318.

Additionally, "the lack of a clear standard leads to unpredictable outcomes." Taing, 16 Geo. Mason L. Rev. at 502. Like the multi-factor *Associated General Contractors* test, the reasonable interest test gives "much discretion" to judges and the use of both standards has great potential to vary from one court to another because courts will arrive at varying definitions of "reasonable" or place a different emphasis on each factor of the *Associated General Contractors* test. Peter S. Massaro, Filtering Through a Mess: A Proposal to Reduce the Confusion Surrounding the Requirements for Standing in False Advertising Claims Brought Under Section 43(A) of the Lanham Act, 65 Wash. & Lee L. Rev. 1673, 1700 (2008). Moreover, "an easily malleable standard" "create[s] a high risk that courts would make Section 43(a) standing determinations based not on prudential standing principles, but rather on whether the merits of the plaintiff's claim align with their ideological preferences." (*Id.* at 1702, citing Richard J. Pierce, Jr., Is Standing Law or Politics?, 77 N.C. L. Rev. 1741, 1749 (1999)).

In addition, when the standard is this malleable, the costs and difficulties of litigation increase. The relevant evidence under this expansive test may be much broader with the concomitant costs of discovery similarly rising. If this were necessary to achieve the correct outcome under the Lanham Act, the additional time and cost might be justified. But it is not necessary and in fact may result in both over- and under-inclusive enforcement of the Act.

ARGUMENT III

The *Associated General Contractors* Test Is Less Predictable Because The Factors Are Vague And It Does Not Ensure That Direct Competitors Have Standing

In contrast to the straightforward categorical approach to standing under the Lanham Act and the amorphous and open-ended reasonable interest test, several circuits apply a multi-factor test based on the test for antitrust standing set forth in *Associated Gen. Contractors*, 459 U.S. 519. In applying this test to standing under the Lanham Act, the court considers:

(1) The nature of the plaintiff's alleged injury: Is the injury "of a type that Congress sought to redress" by enacting the Lanham Act?

(2) The directness or indirectness of the asserted injury.

(3) The proximity or remoteness of the party to the alleged injurious conduct.

(4) The speculativeness of the damages claim.

(5) The risk of duplicative damages or complexity in apportioning damages.

Conte, 165 F.3d at 233-234.

In *Conte*, retail sellers of motor oil and other engine lubricants sued manufacturers of a competing product called Slick 50, alleging false advertising under the Lanham Act. Reversing the district court, the Third Circuit held that the retailers lacked prudential standing because they did not suffer a competitive harm and they were remote from the injury in contrast to the manufacturers whose products competed with Slick 50. *Conte*, 165 F.3d at 234-236. In addition to the Third Circuit, this approach has been followed in the Fifth Circuit, *Ford*, 301 F.3d at 337, citing *Procter & Gamble* 242 F.3d at 562-63 ("Although technically distinct, these five factors can be distilled into an essential inquiry, i.e., whether, in light of the competitive relationship between the parties, there is a sufficiently direct link between the asserted injury and the alleged false advertising."), and the Eleventh Circuit, *Phoenix*, 489 F.3d at 1163.

When the Eleventh Circuit applied the *Associated General Contractors/Conte* multi-factor test in *Phoenix*, however, it held that a direct competitor did not have standing under the Act. This surprising outcome seems contrary to Congressional intent. And it underscores the unpredictability inherent in a multi-factor standard – especially one intended to be applied in antitrust cases as opposed to claims of false advertising under the Lanham Act. Indeed, "including factors on damages in the analysis, such as factors (4) and (5), is nonsensical in actions [under the Lanham Act] for injunctive relief." Meyer, 2009 U. Ill. L. Rev. at.

In *Phoenix*, a Burger King franchisee, Phoenix of Broward, Inc., brought a false-advertising class action

against McDonald's Corp., alleging that McDonalds made false statements that all players of its various promotional games had fair and equal chances to win high-value prizes. But, "[w]hile the games were still underway, the FBI informed McDonald's that there were problems with the random distribution of its game pieces. In spite of this alleged knowledge, McDonald's continued to advertise that customers had a fair and equal opportunity to win the offered prizes, including the high-value prizes." *Phoenix*, 489 F.3d at 1160.

Applying the *Associated General Contractors/Conte* test, the court found that two factors (type of injury alleged and proximity to allegedly harmful conduct) favored standing, but the rest did not. *Phoenix*, 489 F.3d at 1168-1171. In concluding that the fifth factor, risk of duplicative damages, weighed against standing, the Court explained:

> If we were to hold that Phoenix has prudential standing to bring the instant claim, then every fast food competitor of McDonald's asserting that its sales had fallen by any amount during the relevant time period would also have prudential standing to bring such a claim. And if every fast food competitor had standing to bring such a claim, regardless of the amount in controversy, regardless of the amount of lost sales or market share directly attributable to the falsity of the advertisement, and regardless of the impact on the competitor's goodwill or reputation (as the advertisements made no mention of any competitor), the impact on the federal courts would be substantial.

> Furthermore, apportioning damages among these competitors would be a highly complex endeavor.

(*Id.* at 1172).

The Eleventh Circuit's reasoning in *Phoenix* "would prevent any party from having standing to sue another party for false advertising whenever those parties compete in a large market or whenever the defendant's false advertisements affect a large number of similarly situated parties." Meyer, 2009 U. Ill. L. Rev. at 324. See also Massaro, 65 Wash. & Lee L. Rev. at 1676 ("[i]f rulings like the one against the Burger King franchisee become common, Section 43(a)'s protection against false advertising effectively will become a dead letter.")

The multi-factor *Associated General Contractors* test, in DRI's view, is certainly preferable to the reasonable interest standard, but as noted above, it was designed for antitrust law, not the Lanham Act, and has its shortcomings when applied to cases of false advertising. Additionally, scholars have criticized the factors as "'nebulous' and 'difficult' to interpret," Meyer, 2009 U. Ill. L. Rev. at 322, and noted that it is not clear how the factors should be weighed, Massaro, 65 Wash. & Lee L. Rev. at 1696. Given that Congress intended the Lanham Act to prevent against unfair competition, the consideration of superfluous factors in this context renders suspect "the process, the outcome or both." Palladino, 101 Trademark Rep. at 1638-39.

Additionally, employing such a "flexible approach" results in courts having overly broad discretion to allow a wider class of plaintiffs to bring suit, contrary to

Congressional intent. Apgar, 76 Fordham L. Rev. at 2422. The undesirable result, in DRI's view, is that "indirect competitors can acquire standing if they can show the requisite harm or likelihood of such harm," while, as demonstrated by *Phoenix*, even a direct competitor may not. Taing, 16 Geo. Mason L. Rev. at 506. Additionally, using a standard like the multi-factor test makes business planning difficult and is more costly to adjudicate. *MindGames*, 218 F.3d at 657. Accordingly, the straightforward categorical approach with its ease of application and predictable outcome is preferable.

CONCLUSION

For the foregoing reasons, the decision of the court of appeals should be reversed and remanded for consideration of the issue of Lanham Act standing under the categorical test.

Respectfully submitted,

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AMICUS CURIAE BRIEF

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v.

STATIC CONTROL COMPONENTS, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF OF THE INTERNATIONAL TRADEMARK ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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TABLE OF CONTENTS

Page

TABLE OF CONTENTS i

TABLE OF CITED AUTHORITIES iii

INTEREST OF *AMICUS CURIAE* 1

SUMMARY OF ARGUMENT 3

LEGAL BACKGROUND 8

A. Prudential Standing Under the Lanham Act 8

B. Three-Way Circuit Split for Lanham Act "Prudential Standing" 10

1. Categorical Test 10

2. *AGC* Factors Test 11

3. "Reasonable Interests" Test 13

ARGUMENT 14

I. THE CATEGORICAL TEST IS UNDULY NARROW AND DOES NOT ADEQUATELY PROTECT THE INTERESTS OF TRADEMARK OWNERS 14

Table of Contents

Page

A. Circuits Adopting the Categorical Test Deviate from Precedent and Rely Solely on an Unduly Narrow Reading of the Lanham Act's General Statement of Purpose 14

B. The Categorical Test Has Been Heavily Criticized 18

C. This Case Demonstrates the Shortcomings of the Categorical Test 19

II. ADOPTION OF THE ANTITRUST-BASED *AGC* FACTORS TEST HAS SUBSTANTIAL LIMITATIONS IN THE CONTEXT OF THE LANHAM ACT.....20

A. By Emphasizing Injury to Competition and Monetary Damages, the *AGC* Factors Do Not Comport with the Lanham Act 20

B. This Case Demonstrates the Shortcomings of the AGC Factors Test 24

III. THE "REASONABLE INTERESTS" TEST IS CONSISTENT WITH THE LANHAM ACT AND SHOULD BE ADOPTED 26

CONCLUSION 30

TABLE OF CITED AUTHORITIES

Page

CASES

Allen v. Wright,
468 U.S. 737 (1984) 3, 9

Already, LLC v. Nike, Inc.,
133 S. Ct. 721 (2013) 2

American Association of Orthodontists v. Yellow Book USA, Inc.,
434 F.3d 1100 (8th Cir. 2006) 13

Associated General Contractors of California, Inc. v. California State Council of Carpenters,
459 U.S. 519 (1983) ..... *passim*

Banjo Buddies, Inc. v. Renosky,
399 F.3d 168 (3d Cir. 2005) 23

Brown Shoe Co. v. United States,
370 U.S. 294 (1962) 20

Camel Hair & Cashmere Institute of America, Inc. v. Associated Dry Goods Corp.,
799 F.2d 6 (1st Cir. 1986) 13

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479 U.S. 104 (1986) 23

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Ferring Pharm. Inc. v. Watson Pharm., Inc., Case No. 13-2290 (3d. Cir.) 2

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Page

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527 U.S. 627 (1999) 2

Halicki v. United Artists Communications, Inc.,
812 F.2d 1213 (9th Cir. 1987) 10, 14, 15, 18

Jack Russell Terrier Network of Northern California. v. American Kennel Club, Inc.,
407 F.3d 1027 (9th Cir. 2005) 10, 11

K Mart Corp. v. Cartier, Inc.,
486 U.S. 281 (1988) 2

KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.,
543 U.S. 111 (2004) 2

L.S. Heath & Son, Inc. v. AT&T Information Systems, Inc.,
9 F.3d 561 (7th Cir. 1993) 11, 14

Made in the USA Foundation v. Phillips Foods, Inc.,
365 F.3d 278 (4th Cir. 2004) 9

Moseley v. V Secret Catalogue, Inc.,
537 U.S. 418 (2003) 2

Ortho Pharmaceuticals Corp. v. Cosprophar, Inc.,
32 F.3d 690 (2d Cir. 1994) 28

Page

Phoenix of Broward, Inc. v. McDonald's Corp.,
489 F.3d 1156 (11th Cir. 2007) 12, 23, 24

Proctor & Gamble Co. v. Amway Corp.,
242 F.3d 539 (5th Cir. 2001) 12

Qualitex Co. v. Jacobson Products Co.,
514 U.S. 159 (1995) 2

Rosetta Stone Ltd. v. Google, Inc.,
676 F.3d 144 (4th Cir. 2012) 2

Roulo v. Russ Berrie & Co.,
886 F.2d 931 (7th Cir. 1989) 23

Seven-Up Co. v. Coca-Cola Co.,
86 F.3d 1379 (5th Cir. 1996) 9

Smith v. Montoro,
648 F.2d 602 (9th Cir. 1981) 17

Stanfield v. Osborne Industries, Inc.,
52 F.3d 867 (10th Cir. 1995) 11, 14

Static Control Components, Inc. v.
Lexmark International, Inc.,
697 F.3d 387 (6th Cir. 2012) ..... *passim*

Static Control Components, Inc. v.
Lexmark International, Inc.,
No. 02-571, 2006 U.S. Dist. LEXIS 73845
(E.D. Ky. Sept. 28, 2006), *rev'd*, 697 F.3d
387 (6th Cir. 2012) 25

Cited Authorities

Page

Tambrands, Inc. v. Warner-Lambert Co.,
673 F. Supp. 1190 (S.D.N.Y. 1987). 22

Test Masters Educational Services, Inc. v. Singh,
428 F.3d 559 (5th Cir. 2005) 2

TrafficSchool.com, Inc. v. Edriver Inc.,
653 F.3d 820 (9th Cir. 2011). 19, 21, 28

TrafFix Devices, Inc. v. Marketing Displays, Inc.,
532 U.S. 23 (2001). 2

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505 U.S. 763 (1992). 2

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661 F.2d 272 (2d Cir. 1981) 28

Waits v. Frito-Lay, Inc.,
978 F.2d 1093 (9th Cir. 1992). 14, 16

Wal-Mart Stores, Inc. v. Samara Bros.,
529 U.S. 205 (2000). 2

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422 U.S. 490 (1975). 3

Page

STATUTES AND REGULATIONS

15 U.S.C. § 15 ..... 6, 11

15 U.S.C. § 1116(a) 7, 22

15 U.S.C. § 1117(a) 23

15 U.S.C. § 1125(a) ..... *passim*

15 U.S.C. § 1125(a)(1) ..... *passim*

15 U.S.C. § 1125(a)(1)(A) ..... *passim*

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Page

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5 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 27:32 (4th ed. 2013) 17, 18

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Restatement (Third) of Unfair Competition § 3 (1995) 15, 16

Restatement (Third) of Unfair Competition § 37 (1995) 22

S. Rep. No. 79-1333 (1946) 16

S. Rep. No. 100-515 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577 ....3, 18

Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 4

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Page

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INTEREST OF *AMICUS CURIAE*[1]

Founded in 1878, *amicus curiae* The International Trademark Association ("INTA") is a not-for-profit organization dedicated to the support and advancement of trademarks and related intellectual property concepts as essential elements of trade and commerce. INTA has more than 6,000 members in more than 190 countries. Its members include trademark and brand owners, as well as law firms and other professionals who regularly assist brand owners in the creation, registration, protection, and enforcement of their trademarks. All INTA members share the goal of promoting an understanding of the essential role that trademarks and goodwill play in fostering effective commerce, fair competition, and informed decision-making by consumers.

INTA was founded in part to encourage the enactment of federal trademark legislation after invalidation on constitutional grounds of the United States' first trademark act. Since then, INTA has been instrumental in making recommendations and providing assistance to legislators in connection with major trademark and related legislation. INTA members are frequent participants in Lanham Act–related litigation as both plaintiffs and

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1. In accordance with Supreme Court Rule 37.6, *amicus curiae* states that this brief was authored solely by INTA and its counsel, and no part of this brief was authored by counsel to a party. No party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae*, its members, and its counsel made such a monetary contribution to its preparation or submission. Letters from both parties consenting to the filing of this brief have been filed with the Clerk of the Court.

defendants. INTA has also participated as *amicus curiae* in numerous cases involving significant Lanham Act issues in this Court and others.[2]

INTA and its members have a particular interest in this case, which concerns prudential standing requirements for false advertising claims brought pursuant to Section 43(a)(1)(B) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(B). Resolution of the current three-way circuit split on this issue would greatly benefit trademark owners by creating a uniform standard and reducing forum shopping. In addition, it is important to INTA that the standard adopted by the Court sufficiently protect trademark owners' ability to pursue recourse under the Lanham Act when their commercial interests

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2. Cases in which INTA has filed *amicus* briefs with this Court include without limitation: *Already, LLC v. Nike, Inc.*, 133 S. Ct. 721 (2013); *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004); *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003); *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003); *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001); *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000); *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627 (1999); *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992); and *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988). Recent cases in which INTA has filed *amicus* briefs with the United States Courts of Appeals for the various circuits include without limitation: *Ferring Pharm. Inc. v. Watson Pharm., Inc.*, Case No. 13-2290 (3d. Cir.) (amicus brief filed Sept. 20, 2013); *Christian Louboutin S.A. v. Yves Saint Laurent Am. Holding, Inc.*, 696 F.3d 206 (2d Cir. 2012); *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144 (4th Cir. 2012); *Fleischer Studios, Inc. v. A.V.E.L.A., Inc.*, 654 F.3d 958 (9th Cir. 2011); and *Test Masters Educ. Servs., Inc. v. Singh*, 428 F.3d 559 (5th Cir. 2005).

are adversely affected by false advertising. As set forth herein, while INTA takes no position with respect to the plausibility of respondent's allegations or the merits of its substantive claims, INTA and its members are concerned that the prudential standing tests proposed by petitioner are not only inconsistent with the text and purpose of the Lanham Act, but also would prevent the Courts from hearing legitimate grievances concerning deceptive marketing that Congress intended to be actionable under the Lanham Act.[3]

SUMMARY OF ARGUMENT

At the heart of prudential standing is the question of "whether the constitutional or statutory provision on which the claim rests properly can be understood as granting persons in the plaintiff's position a right to judicial relief." *Warth v. Seldin*, 422 U.S. 490, 500 (1975). Put differently, a plaintiff's complaint must "fall within the zone of interests protected by the law invoked," in order for prudential standing to lie. *Allen v. Wright*, 468 U.S. 737, 751 (1984).

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3. This brief is not the first time that INTA has provided guidance with respect to prudential standing requirements for Section 43(a) false advertising claims. INTA's predecessor, the U.S. Trademark Association ("USTA"), addressed this issue prior to passage of the Trademark Law Revision Act of 1988. *See The United States Trademark Association Trademark Review Commission Report and Recommendations to USTA President and Board of Directors*, 77 Trademark Rep. 375, 427-28 (1987); S. Rep. No. 100-515, at 2-3 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5578-79 (noting that the USTA *Report and Recommendations* "served as the basis for the introduction" of the bill that became the Trademark Law Revision Act of 1988).

Section 43(a)(1)(B) of the Lanham Act, added as part of the Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935, provides an express statutory cause of action against false advertising. The text of that provision extends the cause of action to an expansive class of potential plaintiffs – indeed, the same category of plaintiffs that may bring a cause of action for false association under Section 43(a)(1)(A): "any person who believes that he or she is or is likely to be damaged by such" false advertising or false association. 15 U.S.C. § 1125(a)(1). While it is universally acknowledged that this language incorporates some prudential standing limitations, those limitations are fairly minimal; Section 43(a) protections are available to those entities whose *commercial* interests are adversely affected by false advertising or false association. *See, e.g., Colligan v. Activities Club of N.Y., Ltd.*, 442 F.2d 686, 692 (2d Cir. 1971).

Of the three prudential standing tests employed by the circuit courts for false advertising claims under Section 43(a)(1)(B) of the Lanham Act, the "reasonable interests" test applied by the Sixth Circuit in the proceedings below – and advocated for by respondent Static Control Components, Inc. ("Static Control") – is the only analysis fully consistent with the text and underlying purposes of the Lanham Act. *See Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387, 410-11 (6th Cir. 2012). Under this flexible and case-by-case approach originally developed by the Second Circuit, the Court inquires whether a plaintiff has "'(1) a reasonable interest to be protected against the false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising.'" *Id.* at

410 (quoting *Famous Horse Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d Cir. 2010)). Necessarily built into this determination is the aforementioned limitation that only parties whose commercial interests are affected are within the aegis of Section 43(a). *See Famous Horse*, 624 F.3d at 111-12.

In contrast, the two alternate tests of prudential standing that petitioner Lexmark International, Inc. ("Lexmark") implores this Court to choose from would, inconsistent with the broad standing mandate of Section 43(a)(1)(B) itself, drastically limit the protections that the Lanham Act affords to parties with commercial injuries.

The "categorical test" misinterprets one of the Lanham Act's general purposes – to protect "against unfair competition," 15 U.S.C. § 1127 – as protecting only *direct competitors* against false advertising. But the notion that Lanham Act protections only extend to "direct" competitors is not found in the text of Section 43(a) or the legislative history of the Lanham Act.

Nor does such a limitation make any sense. To be sure, false advertising may be particularly likely to injure a party's commercial interests when the advertiser is a direct competitor (because, for example, it may divert sales to a substitute product). But there are instances in which factual misrepresentations can injure the commercial interests of non-direct competitors (or even non-competitors). For example, if a company is expressly falsely disparaged, its goodwill and reputation may be injured irrespective of whether the party making the statements is a direct competitor. Relatedly, commercial interests may be injured in cases involving deceptive

statements about a party's association or affiliation under Section 43(a)(1)(A), for which no courts – even those that apply the categorical test for Section 43(a)(1)(B) claims – require that the plaintiff and defendant be direct competitors for prudential standing to lie. Accordingly, while Lexmark may tout the categorical test as having the "virtue of simplicity, resulting in greater consistency and predictability" in the courts, Pet. Br. at 12, those purported benefits are obtained at the steep expense of fidelity to the scope and purposes of the Lanham Act.

Nor should this Court adopt the balancing factors set forth by this Court for determining standing to bring an antitrust claim in *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 538-44 (1983) (the "*AGC* Factors"), and first adopted in the Lanham Act false advertising context in *Conte Bros. Automotive, Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 233-35 (3d Cir. 1998). While the application of the *AGC* Factors to standing under the Lanham Act in *Conte Bros.* reflects a thoughtful attempt to supplement the "reasonable interests" test by providing additional guideposts for the courts, those factors nevertheless have also proven an unduly restrictive tool for identifying the types of commercial harms that give rise to a cause of action under the Lanham Act. Indeed, because of their origins as a test to determine prudential standing under Section 4 of the Clayton Act, 15 U.S.C. § 15, the *AGC* Factors require a plaintiff to demonstrate an injury to competition itself – i.e., an antitrust injury – that is not required under the Lanham Act.

In addition, the *AGC* Factors place great emphasis on a plaintiff's ability to demonstrate and apportion monetary damages. Yet monetary damages are not only notoriously

difficult to prove in Lanham Act false advertising cases, they are not even required by the Lanham Act itself, which permits plaintiffs to pursue, among other remedies, solely injunctive relief. *See* 15 U.S.C. § 1116(a). Relatedly, the *AGC* Factors do not properly account for the fact that false advertising can result in damage to a business's goodwill separate and apart from measurable, pecuniary harms. As a result, application of the *AGC* Factors to Section 43(a) claims leads to inconsistent and confusing results – including by the District Court in this case, which conflated its analyses of prudential standing for Static Control's distinct claims under the antitrust laws and the Lanham Act.

The facts of this case demonstrate the shortcomings of the categorical test and *AGC* Factors. While INTA takes no position with respect to the plausibility of Static Control's allegations or the actual merits of its substantive claim, it is difficult to imagine that such allegations, if plausible, would not present the very injury that falls within the Lanham Act's "zone of interests."[4] Static Control, which "mak[es] and sell[s] the components necessary to remanufacture Lexmark [toner] cartridges," *Static Control*, 697 F.3d at 396, has alleged that Lexmark's advertising sought to impair Static Control's activities by

4. INTA's conclusion that the reasonable interest approach should be adopted is shared by *amici* the American Intellectual Property Law Association and Law Professors, whose briefs were submitted to this Court in support of neither petitioner nor respondent. Insofar as Lexmark advocates for the categorical and *AGC* Factors test, and Static Control recognizes that any proper test of prudential standing specific to Section 43(a) of the Lanham Act "should use the reasonable interest test applied by the Sixth Circuit (and the First and Second Circuits) as a model" (Respondent's Br. at 15), INTA believes that it is appropriate to submit this brief in support of the respondent.

"false[ly] inform[ing] customers that [Static Control's] products infringe Lexmark's purported intellectual property." *Id.* at 409. To the extent that Lexmark purportedly disseminated false information about Static Control's business by name and in such a manner that would impair Static Control's ability to sell its products, Static Control's commercial interests were certainly alleged to have been harmed.

Insofar as Lexmark advocates for a test that would not permit Static Control to pursue its false advertising claim herein, its notions of prudential standing would not adequately protect brand owners against misrepresentations about their businesses. Accordingly, this Court should reject the categorical test and *AGC* Factors, and adopt the reasonable interests test as the proper analysis of prudential standing for false advertising claims under Section 43(a)(1)(B) of the Lanham Act.

LEGAL BACKGROUND

A. Prudential Standing Under the Lanham Act

Section 43(a) of the Lanham Act, on its face, provides that "any person who believes that he or she is or is likely to be damaged" may bring a cause of action against any person who "uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact" that constitutes either false association or false advertising. 15 U.S.C. § 1125(a)(1). While this grant of standing is broad, courts throughout the United States have consistently agreed that this provision, and the Lanham Act generally,

imposes on putative plaintiffs additional "prudential standing" requirements beyond demonstrating an Article III "case or controversy" – *i.e.*, that the plaintiff's allegedly injured interest is "within the zone of interests" intended to be protected by the statute. *Allen*, 468 U.S. at 751. For example, Section 43(a) protections are available only to those entities whose *commercial* interests are adversely affected by false advertising or false association, and thus consumers do not have a cause of action under the statute. *See Colligan*, 442 F.2d at 692 (explaining that the Lanham Act is intended "exclusively to protect the interests of a purely commercial class against unscrupulous commercial conduct"); *see also Made in the USA Found. v. Phillips Foods, Inc.*, 365 F.3d 278, 279-80 (4th Cir. 2004) (citing cases for the proposition that "[a]t least half of the circuits hold (and none of the others disagree)" that consumers are barred from suing under the Lanham Act); *Conte Bros.*, 165 F.3d at 229 (recognizing that consumers do not have standing to bring Section 43(a) claims and noting "the expressly commercial purpose of the Lanham Act"); *Seven-Up Co. v. Coca-Cola Co.*, 86 F.3d 1379, 1383 n.5 (5th Cir. 1996) ("[W]e have found no case which suggests that 'consumers' as such have standing under § 43(a).").[5]

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5. The breadth of the Lanham Act's protection of commercial interests is aptly reflected in the language of Section 43(a) itself, referring to "use[] in commerce" and misrepresentations of "goods, services, or commercial activities." 15 U.S.C. § 1125(a). The *Colligan* court also looked to the general purpose language in Section 45 of the Lanham Act concerning protection of "persons engaged in such commerce," 15 U.S.C. § 1127, as reflecting Congressional intention to protect only against commercial harms. *See Colligan*, 442 F.2d at 691-92.

Beyond this, however, the various circuit Courts of Appeals have disagreed as to the prudential standing requirements for false advertising claims under Section 43(a)(1)(B) of the Lanham Act, with a three-way circuit split on this issue emerging. These three tests have come to be known as (1) the "categorical" test, (2) the "*AGC* Factors" test, and (3) the "reasonable interests" test.

B. Three-Way Circuit Split for Lanham Act "Prudential Standing"

1. Categorical Test

The "categorical" test is the narrowest, most rigid approach to prudential standing for false advertising claims under Section 43(a)(1)(B) of the Lanham Act. It permits such claims only where the plaintiff is a direct competitor of the defendant, *i.e.*, the injury is "harmful to the plaintiff's ability to compete with the defendant." *Jack Russell Terrier Network of N. Cal. v. Am. Kennel Club, Inc.*, 407 F.3d 1027, 1037 (9th Cir. 2005). This test was first adopted by the Ninth Circuit in *Halicki v. United Artists Communications, Inc.*, 812 F.2d 1213, 1214-15 (9th Cir. 1987). Relying on one of the general statements of purpose in Section 45 of the Lanham Act "to protect persons engaged in . . . commerce against unfair competition," 15 U.S.C. § 1127), the Ninth Circuit narrowed its analysis to the regulation of *competition*, concluding that for conduct to be actionable under the Lanham Act, it "must not only be unfair but must in some discernible way be competitive." *Halicki*, 812 F.2d at 1214. Notably (and as discussed below in Section I.A), courts that apply the categorical test only require direct competition for false advertising claims brought under Section 43(a)(1)(B), but

not for false association claims brought under Section 43(a)(1)(A), despite the fact that both causes of action are covered by the same statutory language concerning who may sue. *See Jack Russell Terrier Network*, 407 F.3d at 1037; 15 U.S.C. § 1125(a)(1).

In addition to the Ninth Circuit, the Seventh and Tenth Circuits have also adopted the categorical test. *See L.S. Heath & Son, Inc. v. AT&T Info. Sys., Inc.*, 9 F.3d 561, 575 (7th Cir. 1993); *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 873 (10th Cir. 1995).

2. *AGC* Factors Test

The "*AGC* Factors" test is so called because it derives from this Court's decision in *Associated General Contractors of California, Inc. v. California State Council of Carpenters* ("*AGC*"), which considered prudential standing requirements for bringing an antitrust action for treble damages under Section 4 of the Clayton Act. *See AGC*, 459 U.S. at 521 ("The question presented is whether the complaint sufficiently alleges that the unions have been 'injured in [their] business or property by reason of anything forbidden in the antitrust laws' and may therefore recover treble damages under § 4 of the Clayton Act.") (alteration in original) (quoting 15 U.S.C. § 15). Addressing the legislative history and the historical context of federal antitrust laws, this Court discussed various factors present under the common law that "circumscribed the availability of damages recoveries" for violation of Section 4 despite the broad statutory language purporting to make the treble damages cause of action available to "'[a]ny person who shall be injured in his business or property.'" *See AGC*, 459 U.S. at 529-

35. Without enumerating a specifically laid out test, this Court identified several generalized factors that bear on whether standing exists in the context of that particular antitrust provision. *See id.* at 537-45.

The Third Circuit, in *Conte Brothers Automotive, Inc. v. Quaker State-Slick 50, Inc.*, faced with the issue of the appropriate test for prudential standing for false advertising claims under the Lanham Act, first recognized that its precedent appeared to apply a form of the "reasonable interest" test (discussed below), without having squarely adopted an articulated standard. 165 F.3d at 230-31. However, in order to add "content" to that test historically (if implicitly) applied, *see id.* at 233, the Third Circuit noted the similarly broad grant of standing in Section 4 of the Clayton Act, and articulated and adopted the following specific factors set forth in *AGC* as a balancing test for determining prudential standing for false advertising claims: (1) the nature of the plaintiff's alleged injury (is it of a type that Congress sought to redress in providing a private remedy?); (2) the directness or indirectness of the asserted injury; (3) the proximity or remoteness of the party to the alleged injurious conduct; (4) the speculativeness of the damages claims; and (5) the risk of duplicative damages or complexity in apportioning damages. *See id.* at 233-35 (citing *AGC*, 459 U.S. at 538-44).

The Fifth and Eleventh Circuits have both adopted the Third Circuit's articulation of the *AGC* Factors test. *See Proctor & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 562-63 (5th Cir. 2001); *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156, 1162-67 (11th Cir. 2007).

3. "Reasonable Interests" Test

The "reasonable interests" test employed by the Sixth Circuit is the broadest and most flexible of the three tests, permitting Section 43(a)(1)(B) claims where a plaintiff demonstrates "'(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising.'" *Static Control*, 697 F.3d at 410 (quoting *Famous Horse*, 624 F.3d at 113). This test incorporates the prudential standing limitation (discussed above) that the "reasonable interest" at issue be a commercial one, not simply a consumer interest. *See Famous Horse*, 624 F.3d at 111-12. Unlike the categorical test, competition between the plaintiff and defendant is not "a *sine qua non* of standing," but rather "a factor that strongly favors standing." *Id.* at 112-13.

In addition to the Second and Sixth Circuits, the First Circuit has applied a variant of the reasonable interests test. *See Camel Hair & Cashmere Inst. of Am., Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6, 11 (1st Cir. 1986) (noting that "the dispositive question in determining whether a plaintiff is a proper person to bring a claim under the Lanham Act, is whether the plaintiff has a reasonable interest in being protected against false advertising").[6]

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6. The Eighth Circuit has recognized a circuit split among courts that adopt the categorical test and *AGC* Factors test (disregarding the reasonable interests test), but has declined to expressly adopt either as the proper analysis of prudential standing. *See Am. Ass'n of Orthodontists v. Yellow Book USA, Inc.*, 434 F.3d 1100, 1103-04 (8th Cir. 2006).

ARGUMENT

I. THE CATEGORICAL TEST IS UNDULY NARROW AND DOES NOT ADEQUATELY PROTECT THE INTERESTS OF TRADEMARK OWNERS

A. Circuits Adopting the Categorical Test Deviate from Precedent and Rely Solely on an Unduly Narrow Reading of the Lanham Act's General Statement of Purpose

As discussed above, the sole basis for the Ninth Circuit's adoption of the "direct competitor" requirement in *Halicki* was the language of Section 45 of the Lanham Act, which states that among the Lanham Act's various purposes is to "protect persons engaged in . . . commerce against unfair competition." 15 U.S.C. § 1127; *see Halicki*, 812 F.2d at 1214. Seeking to contain a perceived "'explosion' of cases brought under the [Lanham Act]," *Halicki*, 812 F.2d at 1213-14 (citation omitted), the court took an extremely narrow view of "unfair competition," reading it as a limitation on the specific types of injuries made actionable under Section 43(a), rather than an example of the unlawful conduct against which the Lanham Act seeks to protect persons engaged in commerce. *See id.* at 1214. Subsequent cases within the circuits employing the categorical test have continued to rely solely on the Section 45 language as the justification for the categorical test. *See, e.g.*, *Stanfield*, 52 F.3d at 873; *L.S. Heath & Son*, 9 F.3d at 575; *Waits v. Frito-Lay, Inc.*, 978 F.2d 1093, 1108 (9th Cir. 1992). Lexmark also relies on this same rationale. *See* Lexmark Br. at 4, 15.

But the reasoning in *Halicki* is fatally flawed insofar as the categorical rule relies on an unduly restrictive understanding of "unfair competition" as that term is used in Section 45. The general term "unfair competition" in the abstract is not so constrained that it only applies to diversions of sales from one party to its *direct competitor*, but rather refers to a broader category of "commercial torts." *See generally* 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 1:8 (4th ed. 2013); *see also id.* § 1:8, at 1-18 (explaining that "the meaning of the term ["unfair competition"] is fluid, having been refined on a case-by-case basis over more than a century," and therefore is not susceptible to an "overall, sweeping definition"). This point is aptly reflected in the Restatement (Third) of Unfair Competition, which, in its introductory provision, defines unfair competition as "caus[ing] harm to the commercial relations of another by engaging in a business or trade" through "acts or practices" including not only "deceptive marketing," but also trademark infringement, trade secret appropriation, and violations of the right of publicity. Restatement (Third) of Unfair Competition § 1 (1995). Indeed, the Restatement expressly rejects the notion that "deceptive marketing" is limited to direct competitors; misrepresentations are actionable when they relate to "goods, services or commercial activities" and lead to "the likely commercial detriment of another," *id.* § 2, which "detriment" includes not only "diversion of trade," but also "affect[ing] the conduct of prospective purchasers," and "harm[ing] the other's reputation or goodwill." *Id.* § 3. As a result, the drafters of the Restatement (in their comments) bluntly reject the categorical test, and adopt the reasonable interests test:

> The commercial harm cognizable under this Section is not limited to direct diversions of trade, and *an actor may thus be subject to liability to a person with whom it does not compete.* Commercial detriment sufficient to subject an actor to liability may be found in the treatment of harm to the business reputation or goodwill of another. In determining the existence of a likely commercial detriment, *the dispositive question is whether the party seeking relief has a reasonable interest to be protected against the deceptive marketing of the actor.*

Id. § 3 cmt. f (emphasis added). Nothing in the text or legislative history of the Lanham Act indicates that Congress intended to alter the common law understanding of "unfair competition" to only include actions by direct competitors. If anything, Congress passed the Lanham Act to codify and make "stronger and more liberal" existing trademark law. S. Rep. No. 79-1333, at 3 (1946).

The failings of the categorical rule are further reflected by the fact that courts that apply the categorical rule to Section 43(a)(1)(B) false advertising claims recognize that there is no direct competition requirement for prudential standing in false association claims under Section 43(a)(1)(A), despite the fact that both causes of action *share the same exact language* with respect to who can bring a suit. *See* 15 U.S.C. § 1125(a)(1); *see also Waits*, 978 F.2d at 1107 (noting the "[c]ommon sense" proposition that a party "commercially damaged" by Section 43(a)(1)(A) activity will "rarely if ever be a competitor, and yet is the party best situated to enforce the Lanham Act's prohibition on such conduct"). This differential treatment is not based

on any logical distinction between false association and false advertising for purposes of prudential standing, nor could it be: the two causes of action both protect against the same injury – "false or misleading representation[s] of fact" with respect to "commercial activities" – with the only difference being the *type* of misrepresentation being made by the defendant. 15 U.S.C. § 1125(a)(1)(A), (B).[7] Rather, the distinction was simply a contrivance of the Ninth Circuit to "attempt to reconcile" its *Halicki* decision with precedent, *Waits*, 978 F.2d at 1108, "which grant[ed] a remedy against false representations in similar noncompetitive situations." 5 McCarthy, *supra*, § 27:32, at 27-34; *see Smith v. Montoro*, 648 F.2d 602, 607 (9th Cir. 1981) ("[T]he plaintiff under section 43(a) need not be in actual competition with the wrongdoer.").

The Ninth Circuit's desire to resolve its own precedential conflicts notwithstanding, its "solution" is not only inconsistent with the plain language and logic of Section 43(a), but also with the legislative history of the Lanham Act. *See Conte Bros.*, 165 F.3d at 232 ("Section 43(a) provides no support for drawing a distinction in standing depending on the type of § 43(a) violation alleged."). The text of Section 43(a) under the original Lanham Act included "'two prongs'" that "rested on the prohibitions against 'false designation of origin' and 'false description or representation'" and "share[d] the same criteria" as to "procedural elements such as . . . standing to sue." 5 McCarthy, *supra*, § 27:9, at 27-21 to 27-22. When

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7. Section 43(a)(1)(A) protects against deceptive statements concerning affiliation, sponsorship, or origin of commercial activities, *see* 15 U.S.C. § 1125(a)(1)(A), while Section 43(a)(1)(B) protects against deceptive statements concerning the nature or qualities of commercial activities. *See* 15 U.S.C. § 1125 (a)(1)(B).

Congress added the express statutory cause of action for false advertising as a separate provision, it did not add any other language that distinguished standing under Sections 43(a)(1)(A) and 43(a)(1)(B). On the contrary, in passing the 1988 revisions to the Lanham Act, the Senate explained that the amendments "should not be regarded as either limiting or extending applicable decisional law." S. Rep. No. 100-515, at 41 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5604 (emphasis added).

B. The Categorical Test Has Been Heavily Criticized

In light of the foregoing, it is not surprising that the categorical test has been heavily criticized. A leading treatise on trademarks and unfair competition describes *Halicki* as an "aberration in the history of court interpretation of § 43(a)" and notes that the "passé semantic argument that there cannot be 'unfair competition' without 'competition' between the parties has often been rejected." 5 McCarthy, *supra*, § 27:32, at 27-74 to 27-75; *see also* 4 McCarthy, *supra*, § 24:14; James S. Wrona, *False Advertising and Consumer Standing Under Section 43(a) of the Lanham Act: Broad Consumer Protection Legislation or a Narrow Pro-Competitive Measure?*, 47 Rutgers L. Rev. 1085, 1138 (1995).[8] Perhaps as a result of this criticism, even the Ninth Circuit appears to be backing away from the severity of the "direct competitor" requirement. In a 2011 opinion, that court emphasized that Section 43(a)(1)(B) prudential standing requires

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8. Then Circuit Judge Alito, writing the opinion in *Conte Bros.*, cited these same sources and noted that the "Ninth Circuit's approach has been the subject of criticism in subsequent cases and scholarly commentary." *Conte Bros.*, 165 F.3d at 232-33.

"commercial injury," and explained that "when plaintiff competes directly with defendant, a misrepresentation will give rise to a presumed commercial injury that is sufficient to establish standing." *TrafficSchool.com, Inc. v. Edriver Inc.*, 653 F.3d 820, 826-27 (9th Cir. 2011). These statements can fairly be read to reflect a position that *direct competition may be sufficient, but is not necessary*, for prudential standing under Section 43(a)(1)(B), and are a very far cry from the strict categorical test that Lexmark argues should be adopted by this Court.

C. This Case Demonstrates the Shortcomings of the Categorical Test

Static Control alleges that Lexmark injured its business and reputation by making false statements to customers that Static Control was engaging in illegal conduct: specifically, that Static Control was making products that infringed Lexmark's intellectual property. *See Static Control*, 697 F.3d at 409. According to Lexmark, Static Control would lack prudential standing under the categorical test because it does not sell printers or print cartridges like Lexmark, and instead only "indirectly" competes with Lexmark by supplying parts to Lexmark's competitors in the cartridge market. But this distinction makes little sense. Whether Static Control competes with Lexmark for customers or works in conjunction with parties that compete with Lexmark for customers, its business and competitive interests are nevertheless adverse to Lexmark. Therefore, damage allegedly incurred by Static Control is the same as if they were directly competing: a loss of customers and of goodwill. Further, the existence or non-existence of a direct benefit to Lexmark that corresponds with such loss of customers and goodwill by Static Control is not dispositive of the

question of whether Static Control suffered an injury to its commercial interests.

As discussed below, *see infra* Section III, the fact that Static Control's business was the express target of the purported misrepresentations by Lexmark should be sufficient to ensure prudential standing. Insofar as the categorical test would not permit Static Control to bring a Section 43(a) false advertising claim, it is unduly narrow and does not comport with the purposes of the Lanham Act.

II. ADOPTION OF THE ANTITRUST-BASED *AGC* FACTORS TEST HAS SUBSTANTIAL LIMITATIONS IN THE CONTEXT OF the LANHAM ACT

A. By Emphasizing Injury to Competition and Monetary Damages, the *AGC* Factors Do Not Comport with the Lanham Act

As discussed above, this Court developed the *AGC* Factors to identify actionable injuries under Section 4 of the Clayton Act. *See AGC*, 459 U.S. at 521, 538-45. Accordingly, the purpose of the *AGC* Factors is to identify whether the plaintiff has suffered antitrust injury – that is, injury to "competition, not competitors." *Brown Shoe Co. v. United States*, 370 U.S. 294, 320 (1962); *see AGC*, 459 U.S. at 538. At no point did this Court suggest that these factors would be applicable to a prudential standing analysis outside of the context of Section 4 of the Clayton Act, much less an entirely different statutory scheme.

When used to identify actionable injuries under the Lanham Act, the *AGC* Factors suffer from the limits of

their antitrust origins. To be sure, the Third Circuit's decision in *Conte Bros.* was a thoughtful rejection of the failings of the categorical test while drawing parallels between the broad grants of standing in the language of Section 43(a) of the Lanham Act and Section 4 of the Clayton Act. *See Conte Bros.*, 165 F.3d at 231-33. But there was little basis for lifting the *AGC* Factors wholesale; while the court relied almost exclusively on the suggestion in the Restatement reporter's notes that the *AGC* Factors "'may offer a useful analogy'" in cases of deceptive marketing, *Conte Bros.*, 165 F.3d at 233, the drafters of the Restatement did not suggest that a virtual identical standing analysis is appropriate. *See* Restatement (Third) of Unfair Competition § 3 cmt. f (1995). And while the court correctly noted that both the Lanham Act and Clayton Act "were drafted against the backdrop of common law doctrine," by applying the *AGC* Factors wholesale to the Lanham Act context, the court appears to have treated those common law backdrops as identical without taking into account that the statutes seek to remedy fundamentally different types of injury. *See Conte Bros.*, 165 F.3d. at 228-30, 233.

The most troublesome aspect of application of the *AGC* Factors to Section 43(a) is its emphasis (in the fourth and fifth factors) on the plaintiff's ability to prove and apportion monetary damages to obtain prudential standing. As an initial matter, monetary damages can be extremely difficult (if not impossible) to establish in false advertising and other Lanham Act claims.[9] More

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9. *See TrafficSchool.com*, 653 F.3d at 825 (explaining that it "is especially difficult" to prove injury in a false advertising case insofar as "the injury consists of lost sales that are 'predicated on the independent decisions of third parties; *i.e.*, customers'")

significantly, the Lanham Act *does not require monetary damages* in order to bring a valid claim. Rather, the statute expressly permits plaintiffs to seek injunctive relief alone, even if damages are not otherwise sought. *See* 15 U.S.C. § 1116(a). It is self–evident that a court should not impose a higher burden under the rubric of prudential standing than that required in order to prevail on the merits of the substantive claim. This Court recognized that fact when it refused to extend the *AGC* Factors to a prudential standing analysis under Section 16 of the Clayton Act, reasoning that because that section provides for injunctive relief and "raises no threat of multiple lawsuits or duplicative recoveries, some of the factors other than antitrust injury that are appropriate

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(citation omitted); *Coca-Cola Co. v. Tropicana Prods., Inc.*, 690 F.2d 312, 316 (2d Cir. 1982) ("It is virtually impossible to prove that so much of one's sales will be lost or that one's goodwill will be damaged as a direct result of a competitor's advertisement."); *accord* 5 McCarthy, *supra* § 27:31, at 27-61 to 27-62; *see also* Restatement (Third) of Unfair Competition § 37 cmt. b (1995) (noting "the difficulty of proving lost sales"). Indeed, since injuries to reputation or goodwill are particularly difficult to quantify, courts recognize that such injuries constitute "irreparable harm" in the context of injunctions. *See* 5 McCarthy, *supra*, § 30:47, at 30-120 to 30-120.1 ("[I]n many situations, irreparable harm can rather easily be demonstrated by pointing to the fact that the trademark owner's business goodwill and reputation are in peril."); *see, e.g.*, *Century 21 Real Estate LLC v. All Prof'l Realty, Inc.*, No. CIV. 2:10-2751, 2011 WL 221651, at *12 (E.D. Cal. Jan. 24, 2011) ("[T]he Ninth Circuit has recognized that damage to goodwill is an irreparable harm."); *Tambrands, Inc. v. Warner-Lambert Co.*, 673 F. Supp. 1190, 1195-96 (S.D.N.Y. 1987) (granting permanent injunction; noting that "[b]ecause it is difficult to establish actual damages in a competitive market, legal remedies in [false advertising] cases such as this are often inadequate").

to a determination of standing under § 4 are not relevant under § 16." *Cargill, Inc. v. Monfort of Colorado, Inc.*, 479 U.S. 104, 111 n.6 (1986). If the *AGC* Factors do not apply throughout the Clayton Act, there is certainly no justification to extend them to the Lanham Act.[10]

In addition, that the *AGC* Factors direct courts to consider "directness of the asserted injury," duplicative damages, and "complexity in apportioning damages" have led some courts irrationally to deny prudential standing even to direct competitors in cases where there are multiple competitors in the marketplace because proving and apportioning damages for any one of those competitors would be difficult. *See, e.g., Phoenix of Broward,* 489 F.3d at 1160, 1163-64 & n.3, 1167-73 (denying prudential standing under the *AGC* Factors to Burger King franchisees seeking to sue McDonald's under Section 43(a)(1)(B) despite recognition that the parties were "'direct competitors,'" plaintiffs alleged "competitive harm," and there was "no identifiable class of persons that is more proximate to the claimed injury"); *see* Rebecca Tushnet, *Running the Gamut From A to B: Federal Trademark and False Advertising Law*, 159 U. Pa. L. Rev. 1305, 1306 (2011) (noting that the *Phoenix* court dismissed the case because it concluded, "without hearing any evidence, that

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10. The Lanham Act also permits plaintiffs to seek, "subject to the principles of equity," a defendant's profits aside from actual damages. 15 U.S.C. § 1117(a). Some courts – including courts that apply the *AGC* Factors and categorical test – permit awards of such profits based purely on a deterrence theory, and therefore this form of award too need not be based on any actual damages. *See, e.g., Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168, 177-78 (3d Cir. 2005); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989).

it would be too difficult for the class [of franchisees] to show the precise extent to which it had been harmed").[11]

B. This Case Demonstrates the Shortcomings of the *AGC* Factors Test

For the reasons discussed above, Static Control has alleged a commercial injury resulting from Lexmark's misrepresentations that, if plausible, should place it within the zone of interests protected by the Lanham Act. That Lexmark contends that the *AGC* Factors would deny Static Control a cause of action despite the fact that Static Control's business and goodwill was allegedly expressly and directly targeted by Lexmark's advertising demonstrates how unduly restrictive those factors can be. For example, Lexmark relies heavily on the *AGC* Factors' undue emphasis (in the Lanham Act context) on monetary damages. Pet. Br. at 25-27. Lexmark also asserts that the "proximity" factor weighs against Static Control because there are "entities closer to the defendant's actions in the relevant market" that have a greater interest in pursuing the cause of action and "vindicat[ing] the public interest" in truthful commercial speech. *Id.* at 25 (quoting *AGC*, 459 U.S. at 542). But this makes little sense; insofar as Lexmark's alleged misrepresentations were about Static Control's products, it is difficult to imagine any entity with a greater commercial interest to bring the cause of action. And even if another entity did have equal or greater interest, that interest would not render Static Control's

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11. The deficiencies inherent in the application of the *AGC* Factors in the *Phoenix* opinion and other troubling decisions are addressed in greater depth by *amici* AIPLA (Br. at 26-27) and Law Professors (Br. at 25-30). Tellingly, Lexmark cites the *Phoenix* opinion with approval. Lexmark Br. at 27-28, 40.

injuries illusory. Finally, Lexmark effectively incorporates into the first *AGC* Factor a direct competition requirement akin to that of the categorical rule, taking the strained position that Static Control lacks "competitive interests" in this matter. Pet. Br. at 24. Plainly this is not so.[12]

The application of the *AGC* Factors by the District Court in this case demonstrates another significant risk: that courts will simply conflate the Lanham Act and antitrust analyses without considering the different purposes of, and protections afforded by, those statutory schemes. In this case, after evaluating Static Control's prudential standing under Section 4 of the Clayton Act, the District Court concluded that Static Control lacked prudential standing to pursue its false advertising claims "for the same reasons that [it] lacks standing to pursue its antitrust claims." *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, No. 02-571, 2006 U.S. Dist. LEXIS 73845, at *38 (E.D. Ky. Sept. 28, 2006), *rev'd*, 697 F.3d 387 (6th Cir. 2012). Congress could not have intended that prudential standing under the Lanham Act be addressed in such summary fashion or that the "zones of interests" protected by the Lanham Act simply be conflated with those protected by U.S. antitrust laws.

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12. To the extent that application of the *AGC* Factors to the Lanham Act is based on the language of Section 45 declaring the intent of the Lanham Act to protect against "unfair competition," *see Conte Bros.*, 165 F.3d at 228-29, that reasoning is flawed for the reasons discussed above. *See supra* Section I.A.

III. THE "REASONABLE INTERESTS" TEST IS CONSISTENT WITH THE LANHAM ACT AND SHOULD BE ADOPTED

For all of the reasons discussed above, the categorical test and the *AGC* Factors disregard the text and history of Section 43(a), as well as reflect incorrect assumptions as to the purposes of the protections afforded by Congress therein. In contrast, the approach employed by the Sixth Circuit in this case is consistent with Congress' intent that a broad category of plaintiffs whose commercial interests are adversely affected by false advertising (or false association) may seek recourse under the Lanham Act. By inquiring into whether the plaintiff can show a reasonable commercial interest to be protected against false advertising and a reasonable basis for "believing" that the interest is "likely" to be damaged by the alleged false advertising, the reasonable interests test hews closely to the actual language of Section 43(a). *See* 15 U.S.C. § 1125(a)(1); *Static Control*, 697 F.3d at 410; *Famous Horse*, 624 F.3d at 111-13. This approach neither demands that plaintiffs carry burdens not required under the Lanham Act itself – such as proving monetary damages (as do the *AGC* Factors) – nor requires creation of an artificial distinction between false association and false advertising claims that are governed by the same exact statutory language in Section 43(a) (as does the categorical rule).

Lexmark's apparent concern that the reasonable interests test is not practical is without merit. In this regard, Lexmark asserts that the analysis is "toothless" because it "sets the same bar as Article III standing," Pet. Br. at 4. This is simply not true. The Sixth and Second Circuits' tests incorporate the universally acknowledged

limitation – beyond the requirements of Article III – that injuries are only actionable under the Lanham Act if they are to a party's *commercial* interests, thereby excluding mere consumers from having prudential standing. *See Static Control*, 697 F.3d at 411 (finding that Static Control "sufficiently alleged" a harm to its "cognizable interest in its business reputation and sales to remanufacturers"); *Famous Horse*, 624 F.3d at 112 (noting "the Lanham Act's focus on commercial interests rather than consumer interests").

Relatedly, Lexmark does not support its bald assertion that the reasonable interests test is "insolubly vague and will sow disuniformity in the federal courts," Pet. Br. at 4, and INTA is not aware of any data reflecting that courts in the First, Second, or Sixth Circuits are any more "disuniform" in their application of prudential standing than within the other circuits.[13] On the contrary, application of the *AGC* Factors "unnecessarily complicates the inquiry, without clarifying the result." *Famous Horse*, 624 F.3d at 115 & n.3.

Far from being a deficiency, the breadth and flexibility of the reasonable interests test is one of its great strengths. For example, the reasonable interests test recognizes that direct competition between an aggrieved plaintiff and an alleged false advertiser is likely *sufficient*, but *not necessary* for prudential standing under the Lanham Act because under those circumstances it

13. *Amici* Law Professors have demonstrated with empirical evidence that the "reasonable interest circuits are not noticeably clogged with noncompetitor suits, nor are they unable to deny plaintiffs standing in appropriate circumstances." (Law Professors Br. at 17.)

is particularly likely that some portion of the sales or goodwill reaped from the false advertising would have been drawn from customers that might otherwise have gone to the competitor. *See Famous Horse*, 624 F.3d at 113 (noting that competition is "a strong indication of why the plaintiff has a reasonable basis for believing that its interest will be damaged by the alleged false advertising" but not "an absolute requirement for standing"); *see also TrafficSchool.com*, 653 F.3d at 827 ("There are good reasons to presume that a competitor bringing a false advertising claim has suffered a commercial injury. Competitors 'vie for the same dollars from the same consumer group,' and a misleading ad can upset their relative competitive positions.") (citation omitted). But the reasonable interests test also recognizes that where alleged false advertising references or targets a plaintiff – such as in comparative ads, negative ads, or ads that create a false association – that too renders it particularly likely that commercial interests have been injured even if the plaintiff and defendant are not competitors. *See Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994) ("[W]e have tended to require a more substantial showing where the . . . the defendant's advertisements do not draw direct comparisons between the two [products]"); *Vidal Sassoon, Inc. v. Bristol-Myers Co.*, 661 F.2d 272, 278 (2d Cir. 1981) (explaining that "it is quite likely that the apparently effective suggestions of competitive superiority" of defendant's product over plaintiff's product "would eventually result in loss of sales to [plaintiff]").[14]

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14. There are, of course, other circumstances where a false advertisement plainly injures a party's commercial interests, yet prudential standing would not exist under either the categorical test or *AGC* Factors test. For example, Company A might incorporate Company B's product as a component or ingredient of

In this case, application of the reasonable interests test led the Sixth Circuit to find prudential standing once it determined that Static Control plausibly "alleged a cognizable interest in its business reputation and sales to remanufacturers and sufficiently alleged that these interests were harmed by Lexmark's statements . . . that Static Control was engaging in illegal conduct." *Static Control*, 697 F.3d at 411. In so finding, the court correctly pointed out that the District Court erred in not considering "Static Control's allegations of false advertising directly targeting Static Control." *Id.* at 411 n.10. That Static Control does not "directly" compete with Lexmark for the same exact customers, and/or may have difficulty in proving or apportioning damages, did not change the fact that Static Control had alleged an injury to its business as a result of being expressly targeted by Lexmark's alleged deceptive statements to customers. Accordingly, this case provides a paradigmatic example of how the flexible, case-by-case reasonable interests analysis can ensure that brand owners whose commercial interests are adversely affected by false advertising will not be foreclosed from seeking relief under the Lanham Act.

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its own product, and – in advertising it's own product – make false claims about Company B's product to improve Company A's sales. Unlike the alternative tests of prudential standing, the reasonable interests test recognizes that the creation of false expectations among consumers could injure Company B's commercial interests, even if the companies don't compete, and regardless of whether damages could be readily measured or apportioned.

CONCLUSION

For the foregoing reasons, this Court should reject Lexmark's invitation to adopt either the categorical test or the *AGC* Factors as the proper analysis of prudential standing for false advertising claims brought under Section 43(a)(1)(B) of the Lanham Act, and instead adopt the "reasonable interests" test utilized in the United States Courts of Appeals for the Second and Sixth Circuits.

Respectfully submitted,

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AMICUS CURIAE BRIEF

RECORD AND BRIEFS

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LEXMARK INTERNATIONAL, INC.,

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v.

STATIC CONTROL COMPONENTS, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Sixth Circuit

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TABLE OF CONTENTS

Page

TABLE OF CONTENTS i

TABLE OF AUTHORITIES ii

INTEREST OF *AMICI CURIAE* 1

SUMMARY OF THE ARGUMENT 1

ARGUMENT 3

I. The Lanham Act was Designed to Broaden Standing 3

II. Competitive Injury Adequately Limits Standing 13

III. The Multifactor Test Used by Some Circuits Has Distorted Results in Practice 23

CONCLUSION 36

APPENDIX

Amici Curiae ..... App. 1

TABLE OF AUTHORITIES

Page

CASES

AFL Philadelphia LLC v. Krause, 639 F. Supp. 2d 512 (E.D. Pa. 2009) 8

American Optometric Soc., Inc. v. American Bd. of Optometry, Inc., 2012 WL 2135350 (C.D. Cal. Jun. 12) 22

American Washboard Co. v. Saginaw Manufacturing Co., 103 F. 281 (6th Cir. 1900) 3, 4, 6, 12

Animal Legal Defense Fund v. HVFG LLC, ___ F. Supp. 2d ___, 2013 WL 1563215 (N.D. Cal. Apr. 12) 21

Ashcroft v. Iqbal, 556 U.S. 662 (2009) 15, 25

Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters, 459 U.S. 519 (1983) 23, 24

Aviva Sports, Inc. v. Fingerhut Direct Marketing, Inc., 2011 WL 2533812 (D. Minn. Jun. 27) 29

Balance Dynamics Corp. v. Schmitt Indus., 204 F.3d 683 (6th Cir. 2000) 31

Bell Atlantic Corp. v. Twombly, 550 U.S. 544 (2007) 13, 15, 25

Black Hills Jewelry Mfg. Co. v. Gold Rush, Inc., 633 F.2d 746 (8th Cir. 1980) 6

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TABLE OF AUTHORITIES – Continued

Page

Camel Hair and Cashmere Institute of America, Inc. v. Associated Dry Goods Corp., 799 F.2d 6 (1st Cir. 1986) 16

CareerFairs.com v. United Business Media LLC, 838 F. Supp. 2d 1316 (S.D. Fla. 2011) 33

CHW Group, Inc. v. Better Business Bureau of New Jersey, Inc., 2012 WL 426292 (D.N.J. Feb. 8) 34

Clamp-All Corp. v. Cast Iron Soil Pipe Inst., 851 F.2d 478 (1st Cir. 1988) 7

Coca-Cola Co. v. Tropicana Prods., Inc., 690 F.2d 312 (2d Cir. 1982) 30

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Deposit Guaranty Nat. Bank v. Roper, 445 U.S. 326 (1980) 1

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Erie Railroad Co. v. Tompkins, 304 U.S. 64 (1938) 5

EVCO Tech. & Devel. Co., L.L.C. v. Buck Knives, Inc., 2006 WL 2773421 (E.D. Pa. Sept. 22) 17

Famous Horse, Inc. v. 5th Ave. Photo Inc., 624 F.3d 106 (2d Cir. 2010) 16, 18, 23

Ford v. NYLCare Health Plans of Gulf Coast, Inc., 301 F.3d 329 (5th Cir. 2002) 23

TABLE OF AUTHORITIES – Continued

Page

Frisch's Rests., Inc. v. Elby's Big Boy of Steubenville, Inc., 670 F.2d 642 (6th Cir. 1982) 16

Furniture "R" Us, Inc. v. Leath Furniture, LLC, 2008 WL 4444007 (S.D. Fla. Sept. 26) 28, 32

Gifford v. U.S. Green Building Council, 101 U.S.P.Q.2d 2053 (S.D.N.Y. 2011) 19

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Gordon & Breach Sci. Publishers S.A. v. Am. Inst. of Physics, 859 F. Supp. 1521 (S.D.N.Y. 1994) 34

Halicki v. United Artists Communications, Inc., 812 F.2d 1213 (9th Cir. 1987) 2

Harold H. Huggins Realty, Inc. v. FNC, Inc., 634 F.3d 787 (5th Cir. 2011) 24, 29, 31, 32

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Iroquois Gas Transmission Sys., L.P. v. F.E.R.C., 145 F.3d 398 (D.C. Cir. 1998) 13

Johnson & Johnson v. Carter-Wallace, Inc., 631 F.2d 186 (2d Cir. 1980) 11

TABLE OF AUTHORITIES – Continued

Page

Johnson & Johnson v. GAC Int'l, Inc., 862 F.2d 975 (2d Cir. 1988) 27

Kaufman, Englett & Lynd, PLLC v. Better Business Bureau of Cent. Florida, Inc., 2013 WL 524931 (M.D. Fla. Feb. 13) 34

Klauber Bros., Inc. v. Russell-Newman, Inc., 2013 WL 1245456 (S.D.N.Y. Mar. 26) 19

Kournikova v. General Media Communications, Inc., 278 F. Supp. 2d 1111 (C.D. Cal. 2003) 18

L'Aiglon Apparel, Inc. v. Lana Lobell, Inc., 214 F.2d 649 (3d Cir. 1954) 11

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Medimport, S.R.L. v. Cabreja, ___ F. Supp. 2d ___, 2013 WL 443975 (S.D. Fla. Mar. 12) 8

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In re NASDAQ Mkt.-Makers Antitrust Litig., 187 F.R.D. 465 (S.D.N.Y. 1998) 13

TABLE OF AUTHORITIES – Continued

Page

Nature's Earth Products, Inc. v. Planetwise Products, Inc., 2010 WL 4384218 (S.D. Fla. Oct. 28) 32

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TABLE OF AUTHORITIES – Continued

Page

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Static Control Components, Inc. v. Lexmark Intern., Inc., 697 F.3d 387 (6th Cir. 2012) 8

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Waits v. Frito-Lay, Inc., 978 F.2d 1093 (9th Cir. 1992) 17

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TABLE OF AUTHORITIES – Continued

Page

FEDERAL STATUTES

15 U.S.C. § 1117(a) 30

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TABLE OF AUTHORITIES – Continued

Page

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TABLE OF AUTHORITIES – Continued

Page

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INTEREST OF *AMICI CURIAE*

This brief is filed on behalf of the undersigned Law Professors identified in Appendix A.[1]

Amici are scholars at U.S. law schools whose research and teaching focus is trademark and advertising law. *Amici* seek consistent, manageable standards that effectuate Congress's intent to provide a remedy in Section 43(a)(1)(B) of the Lanham Act for businesses against false and misleading statements in commercial advertising or promotion.

SUMMARY OF THE ARGUMENT

Rules of prudential standing are flexible "rule[s] . . . of federal appellate practice," *Deposit Guaranty Nat. Bank v. Roper*, 445 U.S. 326, 333 (1980), designed to protect the courts from "deciding questions of broad social import where no individual rights would be vindicated and to limit access to the federal courts to those litigants best suited to assert a particular claim." *Phillips Petroleum Co. v. Shutts*, 472 U.S. 797, 804 (1985) (citation omitted). These purposes do

[1] The Parties were timely notified of the intent to file this *amicus* brief pursuant to Rule 37.2. Letters from all parties consenting to the filing of this brief have been submitted to the Clerk. This brief was not authored in whole or in part by counsel for any party. No one other than *Amici* made a monetary contribution to preparing or submitting this brief. *Amici's* institutional affiliations are provided only for purposes of identification.

not counsel in favor of a narrow or rigid standing doctrine in Lanham Act false advertising cases when a private party can identify a likely injury to its economic interests or ability to compete. While *Amici* express no opinion on the proper outcome on these facts, we believe that either a flexible "competitive injury" or a "reasonable interest" test is superior to the multifactor standing test adapted from antitrust law.

Unlike the antitrust laws, which are designed to protect "competition, not competitors," *Brown Shoe Co. v. United States*, 370 U.S. 294, 320 (1962), the Lanham Act is deliberately designed to protect individual businesses. The intent of Congress is evidenced by the language of the last sentence of 15 U.S.C. § 1125 (commonly known as § 43): "The intent of this chapter is . . . to *protect persons engaged in [commerce within the control of Congress] against unfair competition*; . . . ; and to provide rights and remedies stipulated by treaties and conventions respecting trade-marks, trade names, and *unfair competition* entered into between the United States and foreign nations" (emphasis added).[2] It is anticompetitive, in the Lanham Act sense, to advertise in a

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[2] *See Halicki v. United Artists Communications, Inc.*, 812 F.2d 1213, 1214 (9th Cir. 1987) (deeming this passage "unusual, and extraordinarily helpful, in declaring in so many words the intent of Congress. . . . The statute is directed against unfair competition. To be actionable, conduct must not only be unfair but must in some discernible way be competitive.").

way that materially deceives consumers and harms the plaintiff's ability to compete. Thus, any standing inquiry should focus on the conduct targeted by Congress, not on factors developed to address a very different statutory scheme.

The history of the Lanham Act shows Congress's intent to allow a broad class of plaintiffs to attack false advertising, which poisons the market for legitimate competition. Empirical examination of Lanham Act false advertising cases shows little reason for concern about flexible standing tests. By contrast, cases applying the multifactor test adapted from antitrust law routinely end up engaging in factual speculation at the motion to dismiss stage, contrary to ordinary pleading rules. Thus, this Court should avoid transporting a legally inapposite and empirically distracting standard into the Lanham Act.

ARGUMENT

I. The Lanham Act was Designed to Broaden Standing.

Before the Lanham Act, influential cases such as *American Washboard Co. v. Saginaw Manufacturing Co.*, 103 F. 281 (6th Cir. 1900), held that a competitor did not have standing to assert a false advertising claim based on statements about the defendant's own product. *American Washboard* stated that if a

competing business was to have standing to prevent deceptive advertising, that "must come from the legislature, and not from the courts." *Id.* at 286.[3] The Lanham Act therefore went beyond the common law in conferring rights on businesses harmed by unfair competition.[4] This new flexibility enabled the law to address evolving markets and business practices. From our current perspective, the Lanham Act may look like what we imagine the common law to have

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[3] The court's discussion tracks what this Court now calls "prudential standing," and it has been so understood subsequently. Gary S. Marx, *Section 43(a) of The Lanham Act: A Statutory Cause of Action for False Advertising*, 40 Wash. & Lee L. Rev. 383, 388 (1983) ("The *American Washboard* result was consistent with views on standing prevailing at that time. . . . The common-law rule in 1927 . . . was that competitors had no standing to enjoin nondisparaging, deceptive advertising outside the palming off context unless the plaintiff had a monopoly position in the market. . . .").

[4] Pub. L. No. 79-489, § 43, 60 Stat. 427, 441 (July 5, 1946) ("Any person who shall . . . use in connection with any goods or services . . . any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, . . . shall be liable to a civil action by any person . . . who believes that he is or is likely to be damaged by the use of any such false description or representation."); *see Skil Corp. v. Rockwell Int'l Corp.*, 375 F. Supp. 777, 781-82 (N.D. Ill. 1974); Walter J. Derenberg, *Federal Unfair Competition Law at the End of the First Decade of the Lanham Act: Prologue or Epilogue?*, 32 N.Y.U. L. Rev. 1029, 1036-38 (1957); Marx, *supra* note 3, at 388-89.

been, but contemporaries understood matters quite differently.[5]

Thus, while the Third Circuit correctly identified Congress's focus on competitive injury caused in commercial markets, it was inaccurate in concluding that "[t]he congressionally-stated purpose of the Lanham Act . . . evidences an intent to limit standing to a *narrow* class of potential plaintiffs possessing interests the protection of which furthers the purposes of the Lanham Act." *Conte Bros. Automotive, Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 229 (3d Cir. 1998) (emphasis added; citing student note arguing against providing standing to consumers). *Conte Bros.* continued that § 43(a) merely codified the common law "similar to today's prudential standing doctrine." *Id.* at 230. But prudential standing can only be understood with an appreciation of the background against which Congress legislated and the concerns animating Congress at the time. Modern sources may mistake the history by compressing decades of development into their final result under the Lanham Act. *Compare* Petitioner's Br. at 18 (referring to common-law requirement of direct competition as element of trademark infringement) *with*

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[5] *See, e.g.*, Daphne Robert, *The New Trade-Mark Manual* 165 (1947) (explaining gap in federal protection Lanham Act was designed to address); *id.* at 169-70, 180, 185-86 (explaining that Lanham Act both restored and expanded federal unfair competition law after *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938)).

Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 Notre Dame L. Rev. 1839, 1899-1904 (2007) (discussing abandonment of competition requirement).

In light of its history, § 43(a) was indeed "narrow" in the sense that it did not cover all commercial acts that might be deemed unfair, such as bribery or trade secret theft. But it was not narrow in the sense of excluding plaintiffs who suffered commercial harm from another's false advertising. Nor did it codify the common law.[6] To the contrary, it was designed to expand the law, reverse *American Washboard*, and allow business plaintiffs to challenge others' false claims about their own products. Commentators, citing the legislative history, considered this expansion in line with the U.S.'s then-recently assumed international obligations to protect businesses against unfair competition more generally.[7]

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[6] *See supra* note 4-5 and accompanying text; *Black Hills Jewelry Mfg. Co. v. Gold Rush, Inc.*, 633 F.2d 746, 750 (8th Cir. 1980) (noting that § 43(a) "creates a federal statutory tort sui generis and does not merely codify the common law principles of unfair competition").

[7] *See* Derenberg, *supra* note 4, at 1037; Julius R. Lunsford, *Unfair Competition: Scope of the Lanham Act*, 13 U. Pitt. L. Rev. 533, 540-43 (1952) (citing Hearings on H.R. 9041, 75th Cong., 3d Sess. 11-13 (1938)); Edward S. Rogers, *New Concepts of Unfair Competition Under the Lanham Act*, 38 Trade-Mark Rep. 259, 264 (1948). This expansive language and purpose persisted throughout the development of the legislation that became the Lanham Act, with changes only in the direction of breadth (from covering any person who "is or is likely to be damaged" to

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The Trademark Law Revision Act of 1988 ratified judicial decisions holding that false and misleading statements about others' products and services were also covered, again expanding the law.[8] These changes federalized a cause of action for product disparagement by speakers engaging in commercial advertising and promotion.[9] Section 43(a)(1) was split into two parts, though the language related to standing remained identical: it provides for civil

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covering any person who "*believes* that he is or is likely to be damaged"). *See* Derenberg, *supra* note 4, at 1038. Though "believes" may lack any independent force inasmuch as the belief must be reasonable, it emphatically does not indicate a limiting force.

[8] A significant minority of courts had previously held that the only false advertising claims actionable under the Lanham Act were those the defendant made about its own products or services, not disparaging statements made about the plaintiff's products or services. *See, e.g.*, *Clamp-All Corp. v. Cast Iron Soil Pipe Inst.*, 851 F.2d 478 (1st Cir. 1988).

[9] *See, e.g.*, S. Rep. No. 100-515, *reprinted in* 1988 U.S.C.C.A.N. 5603 (Congress wanted to make "clear that misrepresentations about another's products are as actionable as misrepresentations about one's own"); *Procter & Gamble v. Haugen*, 222 F.3d 1262, 1268, 1271-72 (10th Cir. 2000) ("However, the [1988 amendments] also overruled aspects of existing law, most significantly by covering trade libel or product disparagement (i.e., misrepresentations about the plaintiff's goods and services) and by permitting actions based on misrepresentations about commercial activities as well as goods and services.") (citation omitted); 5 Thomas J. McCarthy, *McCarthy on Trademarks and Unfair Competition* § 27:10 (4th ed. 2013) (the amendments covered trade libel and product disparagement).

actions "by any person who believes that he or she is likely to be damaged by such act."[10]

Through this period, courts continued to treat the Lanham Act's false advertising and trademark provisions similarly, as their parallel language suggested, requiring only falsity plus likely commercial injury to grant relief. Roger E. Schechter, *Additional Pieces of the Deception Puzzle: Some Reactions to Professor BeVier*, 78 Va. L. Rev. 57, 58-59 (1992). When Congress split § 43(a), it did nothing to suggest that the standing inquiries should differ as between trademark infringement and false advertising.[11] Nor

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[10] *See* Rebecca Tushnet, *Running the Gamut from A to B: Federal Trademark and False Advertising Law*, 159 U. Pa. L. Rev. 1305, 1309 (2011).

[11] Indeed, because of the parallelism between these provisions, some courts in multifactor circuits have begun to use the rigid multifactor test in trademark infringement cases under § 43(a)(1)(A), unnecessarily complicating the analysis for a trademark owner, who would generally have prudential standing by virtue of plausibly alleging ownership and likely confusion. *See, e.g., Medimport, S.R.L. v. Cabreja*, ___ F. Supp. 2d ___, 2013 WL 443975, at *7-*8 (S.D. Fla. Mar. 12); *Trump Plaza of the Palm Beaches Condominium Ass'n, Inc. v. Rosenthal*, 2009 WL 1812743, at *4-*8 (S.D. Fla. Jun. 24) (using multifactor test in trademark case, but not focusing on true question of whether nonexclusive licensee of trademark has standing to sue for infringement); *AFL Philadelphia LLC v. Krause*, 639 F. Supp. 2d 512, 521-25 (E.D. Pa. 2009) (using multifactor test to determine whether plaintiff had standing to sue for defendant's use of plaintiff's name to falsely suggest endorsement); *cf. Static Control Components, Inc. v. Lexmark Intern., Inc.*, 697 F.3d 387, 410 (6th Cir. 2012) (noting contradiction between Third Circuit's holding that the two prongs of § 43(a) are

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did the legislative history, either initially or at the time of revision, reflect any intent to adopt a standing rule other than that indicated by the flexible "injury" language.[12]

The choice Congress explicitly faced in 1988 was, rather, whether to specifically *limit* standing to those "damaged in [their] business or profession" (language that was proposed but not adopted) or to continue to allow standing to evolve more flexibly, including potentially to allow consumer standing. Some in Congress opposed consumer standing; others suggested that consumer standing should remain possible. *See* Hearing: Trademark Law Revision Act: Hearing on H.R. 4156 Before the Subcomm. on Courts, Civil Liberties and Admin. of Justice of the H. Comm. on the Judiciary, 100th Cong. (Sept. 8, 1988), at 78-80, 90-91 et seq.; *see also* H.R. Rep. No. 100-1028 (Oct. 3, 1988) at 13-15.[13] Congress emphatically did not seek to *narrow* the class of businesses protected in the 1988 revisions.

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generally equivalent and its application of a separate standing test to § 43(a)(1)(B)).

[12] Marx, *supra* note 3, at 399 ("In the commercial context, the question of the requisite injury for standing under the Lanham Act merges into the issue of whether the plaintiff has shown a 'likelihood of injury' required on the merits.").

[13] *See also* Brian Morris, *Consumer Standing To Sue for False and Misleading Advertising Under Section 43(a) of the Lanham Trademark Act*, 17 Memphis St. U. L. Rev. 209 (1987).

By retaining the existing language, Congress declined to interfere with existing judicial treatment of plaintiffs. *Amici* are aware of no pre-1988 court that applied an antitrust-style, multifactor test limiting permissible commercial plaintiffs.

Standing involved identifying a plaintiff's reasonable commercial interest, as opposed to its interest as a consumer or advocate. The Third Circuit's approach in the early years of the Lanham Act reflected this expansiveness:

> we reject this entire [narrow] approach to the statute. We find nothing in the legislative history of the Lanham Act to justify the view that this section is merely declarative of existing law. Indeed, because we find no ambiguity in the relevant language in the statute we would doubt the propriety of resort to legislative history even if that history suggested that Congress intended less than it said. It seems to us that Congress has defined a statutory civil wrong of false representation of goods in commerce and has given a broad class of suitors injured or likely to be injured by such wrong the right to relief in the federal courts. This statutory tort is defined in language which differentiates it in some particulars from similar wrongs which have developed and have become defined in the judge made law of unfair competition. Perhaps this statutory tort bears closest resemblance to the already

> noted tort of false advertising to the detriment of a competitor, as formulated by law of unfair competition. But however similar to or different from pre-existing law, here is a provision of a federal statute which, with clarity and precision adequate for judicial administration, creates and defines rights and duties and provides for their vindication in the federal courts.

L'Aiglon Apparel, Inc. v. Lana Lobell, Inc., 214 F.2d 649, 651 (3d Cir. 1954) (citation omitted).

The Second Circuit likewise recognized that injury to the ability to compete can come in market-specific ways. In *Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186 (2d Cir. 1980), Carter allegedly falsely advertised that the baby oil in its depilatory would work as well as using baby oil after depilation, discouraging consumers from buying J&J's baby oil. The Second Circuit allowed this claim, noting that § 43(a) deliberately did not require plaintiffs to prove actual damages and entitled a broad range of commercial parties to relief. *Id.* at 189. Since the standard for success on the merits – as in trademark – was *likely* consumer confusion rather than proof of actual consumer confusion, the corresponding burden was for the plaintiff to prove a reasonable basis for the belief that it was likely to be damaged as a result of the false advertising. *Id.* at 190. Competition is a standard way to meet this

burden, and the court concluded that the parties competed indirectly in the broader hair removal market.

As McCarthy has explained,

> While the standing requirements developed by the courts may appear quite liberal, the only alternative is a return to the strict and overly restrictive "single source" requirement of the common law. It must be kept in mind that one who is granted standing must still prove that defendant's advertising is in fact false or misleading. The only type of plaintiff that should be denied the opportunity to prove such falsity is the "mere intermeddler" who is minding other people's business. The theory of the commercial plaintiff as the "vicarious avenger" of consumer interests is clearly at work in these cases.

5 McCarthy, *supra*, § 27:31.

Congress very clearly meant to overturn *American Washboard*'s holding that, unless a claimant was the exclusive true source of a product, it could not *prove* that it had lost customers lured by a speaker's false statement. McCarthy's commentary recognizes that "competitive injury" is the only coherent alternative to *American Washboard*, and that requiring a plaintiff to show that it was the only and inevitable victim of commercial harm would ignore this history.

II. Competitive Injury Adequately Limits Standing.

The historically-based reasonable interest and competitive injury tests effectively limit standing. As part of the substantive cause of action, the plaintiff must always identify a specific, materially injurious falsehood to prevail. Private plaintiffs are uniquely suited to identify injuries to themselves worth expending the resources to sue.[14]

The cost of defending a false advertising case is much smaller than the cost of litigating an antitrust case.[15] In addition, the remedies are very different:

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[14] *See* Eric Goldman & Rebecca Tushnet, *The Law of Advertising and Marketing* 35-37 (2011) (noting that private actors have more detailed knowledge and firm-specific incentives to enforce the law against certain kinds of false advertising than the FTC does, and that the FTC devotes its resources to claims that private businesses are unlikely to bring).

[15] *See Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 558-59 (2007) (noting expense of antitrust litigation); *see also, e.g.*, *Iroquois Gas Transmission Sys., L.P. v. F.E.R.C.*, 145 F.3d 398, 399 (D.C. Cir. 1998) (more than $15,000,000 in legal fees); *In re Visa Check/Mastermoney Antitrust Litig.*, 297 F. Supp. 2d 503, 522-25 (E.D.N.Y. 2003) (plaintiff's legal fees were more than $60,000,000 in addition to almost $19,000,000 in costs and fees); *In re NASDAQ Mkt.-Makers Antitrust Litig.*, 187 F.R.D. 465, 488 (S.D.N.Y. 1998) (plaintiff's attorneys' fees totaled $143,780,000). Although there are no comprehensive statistics available specific to Lanham Act false advertising cases, American Intellectual Property Law Association (AIPLA) members report total litigation costs in intellectual property cases, including similar Lanham Act trademark cases, of orders of magnitude less. *See* AIPLA, *2011 Report of the Economic Survey* 35 (2011) (finding median total cost of trademark infringement suit litigated to

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compared to treble damages or even the breakup of a monopolist, the standard remedy for a successful Lanham Act false advertising case is an injunction against continued false advertising, with occasional monetary remedies when the plaintiff can sufficiently prove actual damages. Many circuits impose stringent requirements for recovery of damages or profits in false advertising cases, often requiring willfulness for the latter. 5 McCarthy § 27:42 (damages); § 30:62 (profits). Attorneys' fees in a Lanham Act case are also usually unrecoupable by a prevailing plaintiff, and therefore noncompetitors are unlikely to bring nuisance suits.[16]

Given the limited remedies available, plaintiffs have strong incentives to only assert false advertising claims where there is a real tendency for the advertisements at issue to harm their commercial interests

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conclusion when more than $25 million was at risk to be $1.5 million; smaller cases cost less).

[16] Some critics have argued that false advertising claims can be made anticompetitively by large competitors seeking to maintain their market power and harass new or upcoming entrants. Lillian R. BeVier, *Competitor Suits for False Advertising Under Section 43(a) of the Lanham Act: A Puzzle in the Law of Deception*, 78 Va. L. Rev. 1, 42, 44 (1992). Whatever the merits of this criticism, it is worth noting that it applies primarily to the plaintiffs who will have standing no matter how narrow the test is – dominant market competitors. Thus, this problem should be addressed through fee-shifting, *see Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958, 963 (7th Cir. 2010), rather than through a standing test.

by misleading consumers. On the other side, defendants do not require additional protection from crushing liability beyond that provided by the universal requirement that plaintiffs plausibly plead their claims, including allegations of harm. *Ashcroft v. Iqbal*, 556 U.S. 662 (2009); *Twombly*. Conferring standing on plaintiffs whose commercial interests have likely been harmed by false advertising allows a modest remedy commensurate with plaintiffs' harm. A prudential standing inquiry need not add additional points at which a court must speculate about markets with which it may lack familiarity in order to protect defendants from unjustified costs.

Ongoing empirical research by Deborah Gerhardt, Mark McKenna, and Kevin McGuire confirms that noncompetitors do not make up a significant fraction of claimants *regardless* of the circuit and the standing test applied. The following information is based on their preliminary data which examined an array of variables from 835 district court false advertising decisions decided since the effective date of the 1988 Lanham Act amendments. Of these, 159 opinions (19.0%) considered standing. When standing was adjudicated, plaintiffs had standing 35.9% of the time. Looking only at cases decided after a circuit panel articulated a standing test beyond likelihood of injury, the results are as follows:

Circuit of district court case (test articulated by circuit panel)	Decisions Considering Standing	Percentage Finding Standing[17]
1 (reasonable interest)[18]	3	66.7
2 (reasonable interest)[19]	46	47.8
3 (multifactor)[20]	16	37.5
4 (commercial/competitive interest)[21]	8	25.0
5 (multifactor)[22]	6	16.7
6 (reasonable interest)[23]	5	60.0
7 (competitive injury)[24]	13	53.9
8 (antitrust/business injury but not multifactor)[25]	8	25.0

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[17] A finding of standing does not mean that the plaintiff prevailed, only that the court found that it had standing.

[18] *Camel Hair and Cashmere Institute of America, Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6 (1st Cir. 1986).

[19] *Famous Horse, Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d Cir. 2010).

[20] *Conte Bros.*

[21] *Made in the USA Foundation v. Phillips Foods, Inc.*, 365 F.3d 278, 279-81 (4th Cir. 2004).

[22] *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 562-63 (5th Cir. 2001).

[23] *Frisch's Rests., Inc. v. Elby's Big Boy of Steubenville, Inc.*, 670 F.2d 642, 650 (6th Cir. 1982).

[24] *L.S. Heath & Son, Inc. v. AT & T Info. Sys., Inc.*, 9 F.3d 561, 575 (7th Cir. 1993).

[25] *Gilbert/Robinson, Inc. v. Carrie Beverage-Missouri, Inc.*, 989 F.2d 985, 990-91 (8th Cir. 1993).

9 (competitive injury/ reasonable interest (mixed))[26]	34	20.6
10 (competitive injury)[27]	1	0
11 (multifactor)[28]	3	33.3
DC	0	0
Total	143	37.1

The standing test adopted by a circuit does appear to be correlated with findings of standing, but that is as much as can be said. Although the Second and Ninth circuits are well-known as major loci of Lanham Act litigation, the "reasonable interest" circuits are not noticeably clogged with noncompetitor suits, nor are they unable to deny plaintiffs standing in appropriate circumstances. The general rule is that competition plus misleadingness confers a presumption of standing, while more detailed accounts of injury are required from noncompetitors. The data do not show difficulty applying these principles.[29]

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[26] *Smith v. Montoro*, 648 F.2d 602, 607 (9th Cir. 1981) (reasonable interest); *Waits v. Frito-Lay, Inc.*, 978 F.2d 1093, 1108-09 (9th Cir. 1992) (requiring competition).

[27] *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 873 (10th Cir. 1995).

[28] *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156, 1162-64 (11th Cir. 2007).

[29] In 66 standing decisions from the total set, including cases decided before a circuit panel adopted a specific test, a court reported that the parties were not competitors or not direct competitors. Only five found standing or factual issues on indirect competition precluding dismissal. *See EVCO Tech. & Devel. Co., L.L.C. v. Buck Knives, Inc.*, 2006 WL 2773421 (E.D. Pa. Sept. 22) (noncompetitor had standing); *Maguire v. Sandy Mac, Inc.*, 138

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Under current law, even being a direct competitor does not guarantee that a party will have standing in a false advertising case. Of the 12 standing cases in which a court specifically reported that the parties were direct competitors, it found standing in 7 of them (58.3%). Of the 93 decisions in which the court found that the plaintiffs did not have standing, 62 (66.7%) reported the plaintiff was not a competitor, and 19 (20.4%) found the plaintiff was not a direct competitor. (One possible explanation, as detailed in Part III below, is that courts sometimes conflate standing with failure to state a claim.)[30]

Under the reasonable interest test, competition is "a strong indication of why the plaintiff has a reasonable basis for believing that its interest will be damaged by the alleged false advertising." *Famous Horse*, 624 F.3d at 113. This test, which fits standing to the

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F.R.D. 444 (1991) (consumer had standing), *vacated*, 145 F.R.D. 50 (D.N.J. 1992); *see also Wellness Pub. v. Barefoot*, 2008 WL 108889 (D.N.J. Jan. 9) (direct competition unclear; no rejection of standing); *Omega Engineering, Inc. v. Eastman Kodak, Co.*, 30 F. Supp. 2d 226 (D. Conn. 1998) (indirect competitor had standing); *W. Indian Sea Island Cotton Ass'n Inc. v. Threadtex, Inc.*, 761 F. Supp. 1041 (S.D.N.Y. 1991) (question of fact on indirect competition). The total was 3.1% of all standing decisions.

[30] Another complicating factor is uncertainty among lower courts over whether claims relating to false endorsement fit under § 43(a)(1)(A) or (B). A celebrity claiming that an advertiser falsely implied her endorsement might not conventionally "compete" with the advertiser, but some courts consider this competition. *E.g., Kournikova v. General Media Communications, Inc.*, 278 F. Supp. 2d 1111, 1117 (C.D. Cal. 2003).

particular competitive environment in which the parties operate, can be sensitive to circumstances without opening the floodgates to anyone. When the parties are not obviously in competition, a plaintiff has to make a more substantial showing of injury and causation to have standing. For example, *Klauber Bros., Inc. v. Russell-Newman, Inc.*, 2013 WL 1245456 (S.D.N.Y. Mar. 26), found no standing under the reasonable interest test. In that case, the plaintiff supplied a component used in the defendants' competitors' products, but didn't allege that greater sales for the defendant decreased the sales of its own product. *See also Runberg, Inc. v. Victoria's Secret Stores, Inc.*, 2012 WL 5252309, *6-*8 (S.D. Ohio Oct. 23) (finding that a supplier failed to allege a "reasonable interest" against a retailer with whom it did not directly compete; in the absence of direct competition, a more substantial showing of injury and causation is required and it was not plausible that the defendant's use of pictures of plaintiff's product impeded plaintiff's ability to sell the same designs to other retailers); *Gifford v. U.S. Green Building Council*, 101 U.S.P.Q.2d 2053 (S.D.N.Y. 2011) (finding lack of reasonable interest where plaintiffs engaged in environmental design and defendant offered certification of environmentally friendly design and construction).

A flexible test centered on harm to a plaintiff's ability to compete allows the Lanham Act to accommodate a wide variety of market situations. In some markets, some competitors are vertically integrated

and others are not, and the defendant may take sales from the plaintiff by false advertising at one part of the product chain. There may be other reasons to believe that the plaintiff is uniquely positioned to target false advertising even though it is not in direct, head-to-head competition with the defendant – for example, a victim of product disparagement, as contemplated by the 1988 amendments.

Recent case law has shown the continuing wisdom of flexibility. In *Merck Eprova AG v. Brookstone Pharmaceuticals, LLC*, 920 F. Supp. 2d 404 (S.D.N.Y. 2013), Merck's customers used Merck's ingredients to make supplements used to lessen the risk of certain cancers and cardiovascular disease, as well as to promote prenatal health. Defendant Acella sold its own lower-cost supplements, which undercut Merck's clients' products by falsely claiming equivalence when in fact its product had a different, and far less desirable, composition.[31]

Under the reasonable interest test, Merck had standing to contest Acella's false advertising. No one else was likely to do so, because each individual Merck customer suffered only a fraction of the loss. When the market in which false advertising takes place has numerous competitors, they may all suffer,

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[31] The court took the unusual step of awarding treble damages given Acella's deliberate deception about health-related products. *Merck*, 920 F. Supp. 2d at 430. Under a strict competition test, and likely under the multifactor test, this false advertising could easily be continuing today.

but the individual loss may be insufficient to justify a suit that would benefit all truthfully advertising competitors precisely because the market is otherwise competitive. Arthur Best, *Controlling False Advertising: A Comparative Study of Public Regulation, Industry Self-Policing, and Private Litigation*, 20 Ga. L. Rev. 1, 29 (1985). Merck, by aggregating the interests of its clients, was in the best position to represent the competitive harm, not to mention to prove the facts related to the falsity of Acella's advertising.[32]

It should be noted that a broad definition of competition can also recognize the wide variation of market structures in American business. Finding a competitive interest sufficient to justify Lanham Act standing need not involve conventional head-to-head competition to deliver the same product. In *Animal Legal Defense Fund v. HVFG LLC*, ___ F. Supp. 2d ___, 2013 WL 1563215 (N.D. Cal. Apr. 12), one plaintiff made "faux" foie gras from vegan ingredients. The court found that the plaintiff adequately alleged

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[32] The contributory liability aspect of the case further demonstrates the need for flexibility: the court found that Acella also engaged in contributory false advertising for intentionally inducing pharmaceutical databases to engage in false advertising. *Merck*, 920 F. Supp. 2d at 425. Contributory liability requires an underlying liability, but the databases didn't compete with Merck at all, despite their legally-mandated gatekeeper role in the pharmaceutical system. The reasonable interest test allowed the court to recognize the special characteristics of uniquely configured markets such as the market for pharmaceuticals, which are highly regulated and thus may not fit standard patterns.

competitive harm from the defendant's allegedly false advertising that its foie gras was "humanely raised," because it alleged sufficient facts to show that it competed with the defendant for the same pool of potential customers, even though the ingredients differed radically.[33]

Regardless of the test the Court adopts, any additional rule for assessing noncompetitors' prudential standing should not be applied to direct competitors or victims of product disparagement, because it is too likely to exclude them from standing when they are at the core of the class Congress intended to protect. In *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000), this Court distinguished product design trade dress from product packaging under the Lanham Act. The Court reasoned that a general rule about protectability for the entire class of product design was more likely to get correct answers than a resource-intensive and error-prone individualized inquiry into each specific design. *Id.* at 214. A general rule for run-of-the-mill cases could likewise avoid the traps into which courts have fallen in recent years as they have attempted to apply a multifactor standing test to the claims of direct competitors and victims of disparagement.

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[33] *See also American Optometric Soc., Inc. v. American Bd. of Optometry, Inc.*, 2012 WL 2135350 (C.D. Cal. Jun. 12) (finding associational standing to contest false advertising by professional organization where the parties' members competed against each other, even though the members did not compete against the organization).

III. The Multifactor Test Used by Some Circuits Has Distorted Results in Practice.

Instead of relying on a reasonable interest or competitive injury test, some circuits have imported into the Lanham Act a multifactor test for standing borrowed from antitrust law. The Second Circuit correctly observed that the multifactor test "complicates the inquiry without clarifying the result." *Famous Horse*, 624 F.3d at 115 n.3.[34] Whatever its merits in the antitrust context, the multifactor test imported into Lanham Act cases has led to unnecessary complications and a misguided turn away from competitive injury. It duplicates pleading requirements, leading to unwarranted speculation by courts that frustrates the intent of the Lanham Act.

Among other problems, intent to harm the plaintiff is part of the test in antitrust law. *Associated Gen.*

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[34] *See also Ford v. NYLCare Health Plans of Gulf Coast, Inc.*, 301 F.3d 329, 337 (5th Cir. 2002) (Benavides, J., specially concurring) ("Although technically distinct, these five factors can be distilled into an essential inquiry, i.e., whether, in light of the competitive relationship between the parties, there is a sufficiently direct link between the asserted injury and the alleged false advertising."). For further evidence that the multifactor test generates heat without light, compare *Pernod Ricard USA LLC v. Bacardi U.S.A., Inc.*, 505 F. Supp. 2d 245, 253-54 (D. Del. 2007) (finding that direct competitor had standing to sue Bacardi for false advertising of Havana Club brand rum under multifactor test), with *Havana Club Holding, S.A. v. Galleon S.A.*, 203 F.3d 116 (2d Cir. 2000) (reaching same result under reasonable interest test).

Contractors of Cal., Inc. v. Cal. State Council of Carpenters, 459 U.S. 519, 537 (1983) (*AGC*). By contrast, it is black-letter law that a violation of the Lanham Act requires no intent. 5 McCarthy § 27:51 ("[I]t is clear that § 43(a) does *not* require that the false description or representation be made willfully or with an intent to deceive."). The test therefore could not be imported wholesale. Unfortunately, *Conte Bros.* kept the number of factors at five by splitting the *AGC* fifth factor – whether the claim involves speculative harm, duplicative recovery, or a complex apportionment of damages – into two different factors. *Conte Bros.*, 165 F.3d at 233. This automatically eased the way for courts to determine that multiple factors weighed against Lanham Act standing. But there is no basis in the structure of the Lanham Act for this change. Indeed, because damage awards in Lanham Act cases are rare, creating a separate factor assessing hypothetical damage awards is even less justified.

Even adopters of the multifactor test note its "internal redundancy,"[35] which invites double-counting[36]

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[35] *Harold H. Huggins Realty, Inc. v. FNC, Inc.*, 634 F.3d 787, 797 (5th Cir. 2011); *see also Night Vision Systems, LLC v. Night Vision Depot, Inc.*, 2011 WL 3875515, *4-*8 (E.D. Pa. Sept. 2) (engaging in extended analysis in order to determine that a plaintiff that competed directly with defendant for some sales had prudential standing to challenge disparaging statements about the plaintiff).

[36] *Huggins*, 634 F.3d at 805 ("The fifth factor thus overlaps substantially with the third factor, which inquires into the

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and distracts from the core question of competitive injury. Essentially, the multifactor test reduces to a merits inquiry, but it is regularly determined on the pleadings, requiring unwarranted speculation and distorting the pleading requirements set forth in *Iqbal* and *Twombly*.[37]

Phoenix, a class action brought by Burger King franchisees and decided in 2007 by the Eleventh Circuit, highlights the problem. The case involved fraud and theft by a McDonald's subcontractor, resulting in the diversion of at least $20 million in large-ticket prizes for McDonald's contests. Customers did not in fact have a chance to win the prizes, although McDonald's continued to advertise the

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proximity or remoteness of the plaintiff's injury to the defendant's misconduct"; because third factor favored standing, so did fifth factor).

[37] *See Holy Cross Hospital, Inc. v. Baskot*, 2010 WL 5418999, at *3 (S.D. Fla. Dec. 23) ("[T]he merits nature of Defendants' argument regarding lack of standing is due to the overlap between the [multifactor] test for prudential standing under Section 43(a) and the injury element of such Section 43(a) claims."); *compare Diascience Corp. v. Blue Nile, Inc.*, 2009 WL 1938970, at *3 (S.D.N.Y. Jul. 7) (noting overlap between showing necessary to establish reasonable interest and proof required to succeed on the merits, and holding that this meant that dismissal on the pleadings, without factfinding, was inappropriate); *with Vexcon Chemicals, Inc. v. CureCrete Chemical Co., Inc.*, 2008 WL 834392, at *3-*7 (E.D. Pa. Mar. 28) (holding that plaintiff couldn't show prudential standing because it couldn't show that the challenged statements were false or that it suffered injury in fact, both separate components of a claim regardless of prudential standing).

sweepstakes after discovering the fraud. While the Fifth and Third Circuits had previously used the multifactor test to determine whether noncompetitors should get standing, *Phoenix* began the practice of using the multifactor test to cut off standing for direct competitors. The court reasoned that the test could determine whether the harm was of the type the Lanham Act was designed to redress – competitive harm "directly and proximately caused by the defendant's false advertising." *Phoenix*, 489 F.3d at 1167. However, as applied, the test focuses not on the type of injury but rather on factual questions of materiality and effect on consumers that should properly be addressed at a stage at which evidence can be considered, if Rule 8 has been satisfied.

Indeed, the *Phoenix* court acknowledged that the injury alleged was exactly the type that Congress sought to redress (factor 1) and that McDonald's direct competitors were closer to the competitive injury than any other parties (factor 3), but still found no standing. *Id.* at 1168-70. Though the causal chain was "similar to that of the typical false advertising claim in which a plaintiff alleges that it lost sales and/or market share as a result of the defendant's false or misleading representations," *id.* at 1169, the court then double-counted events, determining that the alleged diversion of customers from Burger King to McDonald's was a different step in the causal chain than the allegation that customers would otherwise have eaten at Burger King in the absence of the chance to win big prizes. *Id.* at 1169.

The court emphasized that only certain high-value prizes were stolen, and other prizes remained, meaning that consumers might still have wanted a chance to win low-value prizes. However, advertising law generally presumes that explicitly false, intentional advertising claims are material to consumers, *see, e.g.*, *Johnson & Johnson v. GAC Int'l, Inc.*, 862 F.2d 975, 977 (2d Cir. 1988), and McDonald's extensively promoted the big-ticket prizes.

The point is not that *Phoenix* made a factual mistake. Rather, the structure of the multifactor test invited the court to make factual assumptions and thereby encouraged speculation in advance of evidence, without assessing whether the facts were well-pleaded. These assumptions were repeated in the court's assessment of the speculativeness of damages (factor 4), and the risk of duplicative damages or complexity in damages (factor 5). *See id.* at 1171-73. Again, this triple-counting demonstrates that the test creates unnecessary complexity and distracts from the true question of competitive injury. Moreover, in a multi-competitor market, there will always be some uncertainty about the amount of damages and the extent to which business was diverted from any one competitor.[38] If this is enough to defeat standing, as it

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[38] This conflicts with the clear congressional intent to cover false statements made about an advertiser's own product. *See, e.g.*, *U-Haul Int'l, Inc. v. Jartran, Inc.*, 681 F.2d 1159, 1160-61 (9th Cir. 1982). The connection between an advertiser's self-promotion and the plaintiff's loss will almost always be less direct than the connection between an attack on the plaintiff

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was in *Phoenix*, then only dominant competitors with already-large market share will have a chance to prove false advertising – an anticompetitive result contrary to the purpose of competition law.

Tellingly, *Phoenix* cautioned that its analysis might differ "if, for example, the facts were such that McDonald's had falsely advertised the odds of winning all of its prizes (low-, mid-, and high-value), or if McDonald's were only giving away a single prize and falsely represented the odds of winning, as these hypotheticals present factual scenarios materially different from the facts of this case." *Id.* at 1173. Yet these hypotheticals have very little to do with the factors that supposedly counseled against standing, especially the two damages factors. The court relied instead on its speculation about the actual effect of the advertising on consumers, in the absence of any evidence on materiality.[39]

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and plaintiff's loss. Denying competitors standing to challenge such claims leaves markets vulnerable to significant distortions. *See* George Akerlof, *The Market for Lemons: Quality Uncertainty and the Market Mechanism*, 84 Q. J. Econ. 488, 495 (1970) ("The cost of dishonesty . . . lies not only in the amount by which the purchaser is cheated; the cost also must include the loss incurred from driving legitimate business out of existence.").

[39] *See also Furniture "R" Us, Inc. v. Leath Furniture, LLC*, 2008 WL 4444007, at *8 (S.D. Fla. Sept. 26) (noting that factor 2, directness of injury, is similar to materiality, but weighing this factor against the plaintiff even though the challenged claims related to price and bait-and-switch advertising, which are generally considered material).

Something that will always be true is not properly deemed a factor. A Lanham Act claim, whether for trademark infringement or false advertising, has multiple steps by definition: consumers will believe a defendant's misrepresentation, thus harming the plaintiff.[40] Unlike a car accident, in which the harm is inflicted directly on the plaintiff, false advertising only harms the plaintiff because of the actions of third parties – consumers – who believe the false claims and act thereon. Whether this harm will actually happen – how consumers interpret the claim at issue, and whether it is material to them – is a quintessentially factual inquiry, but its "indirectness" is inherent in false advertising.

Phoenix is, unfortunately, not an outlier. While the factors are plainly not "wholly distinct," *Huggins*, 634 F.3d at 797, their use has nonetheless led courts inappropriately to engage in counting exercises and to lose sight of Congress's core focus on allowing competitors to compete in a market where sales are not made or lost because of false claims.

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[40] *Compare Huggins*, 634 F.3d at 797 (calling a "three-step[ ]" process of material consumer deception "direct injury"), *with Precision IBC, Inc. v. PCM Capital, LLC*, 2011 WL 5444114, *9 (S.D. Ala. Oct. 17) (using the multifactor test and finding that damages were speculative "[b]ecause the actual economic loss depends on consumers' reaction in a particular way to Defendants' advertisements," which is always true for any advertisement); *Aviva Sports, Inc. v. Fingerhut Direct Marketing, Inc.*, 2011 WL 2533812, *6 (D. Minn. Jun. 27) (same reasoning).

Having two out of five factors related to the difficulty of determining damages is particularly inappropriate. Evidence on damages is usually unavailable at the pleading stage, where the standing assessment is usually carried out. Separately, a successful Lanham Act plaintiff may typically receive injunctive relief without proving specific damages. This rule developed precisely because of the difficulty inherent in quantifying damages caused by false advertising or trademark infringement.[41] For similar reasons, successful plaintiffs may recover defendant's profits in appropriate circumstances.[42] A plaintiff

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[41] *See, e.g., TrafficSchool.com, Inc. v. Edriver Inc.*, 653 F.3d 820, 825 (9th Cir. 2011) (probability of harm is the appropriate standard "because proving a counterfactual is never easy, and is especially difficult when the injury consists of lost sales that are predicated on the independent decisions of third parties; i.e., customers. A plaintiff who can't produce lost sales data may therefore establish an injury by creating a chain of inferences showing how defendant's false advertising could harm plaintiff's business.") (citation omitted); *Coca-Cola Co. v. Tropicana Prods., Inc.*, 690 F.2d 312, 317 (2d Cir. 1982) (explaining that "[i]t is virtually impossible to prove that . . . sales will be lost or goodwill will be damaged as a direct result of a competitor's advertisement"); 5 McCarthy § 27:31 (same); Marx, *supra* note 3, at 401 ("[S]ound policy reasons exist for not requiring proof of actual loss as a prerequisite to obtaining standing for injunctive relief under section 43(a). An inability to prove monetary damages in an injunction suit, as distinguished from an action for damages, poses no likelihood of an unwarranted recovery for the plaintiff. The plaintiff achieves no more than that to which all competitors are entitled – a market free of false advertising.").

[42] *See* 15 U.S.C. § 1117(a) (violation of § 43(a) entitles the plaintiff, "subject to the principles of equity, to recover (1)

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should not have to plead that damages will be readily ascertainable in order to have Lanham Act standing, when the black-letter doctrine is that damages from false advertising and trademark infringement are often not easily measurable.

The other factors have proved similarly problematic, which is unsurprising given that they are variations on one another. The multifactor test essentially asks, several times, whether the plaintiff has truly been harmed in its ability to compete. But by breaking the inquiry into overlapping parts, it invites error and confusion. In the Lanham Act context, courts have not been able to come up with a coherent rubric for analyzing speculativeness of damages.[43] Likewise,

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defendant's profits, (2) any damages sustained by the plaintiff, *and* (3) the costs of the action" (emphasis added)); *Logan v. Burgers Ozark Country Cured Hams*, 263 F.3d 447, 461 (5th Cir. 2001) (jury finding that plaintiff hadn't proven actual losses didn't deprive plaintiff of standing, where plaintiff proved defendant's profits resulting from sale of falsely advertised products and adequately pled injury specific to himself); *Balance Dynamics Corp. v. Schmitt Indus.*, 204 F.3d 683, 689 (6th Cir. 2000) (noting the importance of "clearly distinguishing the elements necessary to prove a breach of the Lanham Act from the elements necessary to justify a certain remedy for that breach").

[43] *See, e.g., Huggins*, 634 F.3d at 800 (reversing district court on standing and disagreeing with its enumeration of causal steps).

courts have divided on how to assess damages (again, usually on the pleadings).[44]

Thus, though courts have labeled the multifactor test "a valuable heuristic," *Huggins*, 634 F.3d at 797, in practice it is a time-consuming, error-inviting diversion – especially in classic cases in which one competitor seeks to enjoin the false advertising of another competitor seeking the same consumer dollars. Most strikingly, while the multifactor test

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[44] *Compare Phoenix*, 489 F.3d at 1172 (arguing that one purpose of the fifth factor is to "assess[ ] the risk of duplicative damages by examining the number of potential claimants in the same position in the distribution chain as the plaintiff and/or in the same market as the plaintiff"); *Nature's Earth Products, Inc. v. Planetwise Products, Inc.*, 2010 WL 4384218, *6 (S.D. Fla. Oct. 28) (weighing fifth factor against standing because market was competitive); *and Furniture "R" Us*, 2008 WL 4444007, *3 (weighing second factor against standing for same reason); *with Huggins*, 634 F.3d at 807 (given its basis in antitrust law, the duplicative damages factor is aimed at excluding remote participants in a distribution chain; the inquiry is "vertical, not horizontal. In other words, we are not concerned with whether there is a large number of potential claimants who occupy the same position in the market as the plaintiff. . . . This factor does not weigh against standing merely because the defendant competes in a crowded market in which its false advertisements might cause injury to multiple – or even numerous – direct competitors. As long as each plaintiff has suffered a distinct economic injury, we need not inquire into how many other similarly situated persons might also have prudential standing."). Some courts have gone so far as to deny standing in part because not every dollar of the defendant's earnings may have come from false advertising. *Furniture "R" Us*, *supra*, at *4 (finding damages speculative because some of defendant's profits might have come from non-false advertising).

purports to make competition not *necessary* for standing, in application it has meant that competition is necessary, but not *sufficient*.[45] Thus, as in *Phoenix*, the multifactor test has been used to prevent *any* competitor from bringing suit against false advertising, simply because the market is not highly concentrated.[46]

The multifactor test also has led to conflicts with another element of a Lanham Act false advertising claim: the defendant's statements must come in

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[45] *See, e.g.*, *CareerFairs.com v. United Business Media LLC*, 838 F. Supp. 2d 1316, 1323 (S.D. Fla. 2011) (in the course of finding that plaintiff lacked standing because the defendant had successfully excluded it from the market, stating that "[e]ach of the *Phoenix* Factors hinges on the directness of the competition between the parties" and that "direct competition is *essential* to a finding of standing to bring a false advertising claim under the Lanham Act in the Eleventh Circuit.") (emphasis added); *cf. Intertape Polymer Corp. v. Inspired Technologies, Inc.*, 725 F. Supp. 2d 1319, 1332 n.25 (M.D. Fla. 2010) (suggesting that plaintiff lacked standing to challenge competitor's comparative advertising directly disparaging its product under the multifactor test, because it failed to state a claim).

[46] By contrast, the "reasonable interest" test recognizes that each competitor has an interest in a truthful market in which to compete. *See Ramchandani v. Sani*, 844 F. Supp. 2d 365, 365 (S.D.N.Y. 2012) (rejecting defendant's argument that the market was competitive and that therefore the plaintiff couldn't reasonably believe that defendant's fraud would harm him; this was a factual argument, and "Plaintiff's reasons for apprehension seem entirely reasonable to the Court, and that would be so even if there are others threatened with the same or similar harm"). Fact-specific questions of injury and damage are better answered through factual inquiries.

"commercial advertising or promotion" in order to fall within the statute's scope. § 43(a)(1)(B). But because courts have read a requirement of competition into this element, any noncompetitor plaintiff supposedly aided by the multifactor test then fails the "commercial advertising or promotion" requirement. *See Gordon & Breach Sci. Publishers S.A. v. Am. Inst. of Physics*, 859 F. Supp. 1521, 1533 (S.D.N.Y. 1994) ("Suit may be brought only by a commercial plaintiff who can prove that its interests have been harmed by a competitor's false advertising.").[47] This means that the multifactor test can only cut off standing, not expand it, depriving the test of its intended flexibility.[48] Though the meaning of "commercial advertising or promotion" is not before the Court, its interaction

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[47] Though *Gordon & Breach* is a district court case, its formulation has been followed in almost every case to explicitly consider the meaning of "commercial advertising or promotion." *See* 5 McCarthy § 27:71.

[48] *See, e.g., Kaufman, Englett & Lynd, PLLC v. Better Business Bureau of Cent. Florida, Inc.*, 2013 WL 524931, at *2 (M.D. Fla. Feb. 13); *CHW Group, Inc. v. Better Business Bureau of New Jersey, Inc.*, 2012 WL 426292, at *3-*4 (D.N.J. Feb. 8) (adopting both an absolute requirement of commercial competition and applying the multifactor test); *ZL Techs., Inc. v. Gartner, Inc.*, 2009 WL 3706821, at *4 & n.2 (N.D. Cal. Nov. 4) (noting the standing/commercial advertising and promotion inconsistency).

with any prudential standing test should be kept in mind.[49]

To the extent that the multifactor test has any use as a heuristic, it could only be in cases not involving direct competitors. This Court should endorse the longstanding rule that properly pled allegations of direct competition and a materially misleading statement in commercial advertising and promotion justifies an inference of the necessary commercial harm sufficient to confer standing. Competitor-plaintiffs may ultimately fail to prove their cases, but those issues of proof should be considered on the merits.

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[49] At some point, the doctrine should be rationalized. One possibility would be that a plaintiff with prudential standing would also satisfy what is currently the "competition" prong of the advertising and promotion test.

CONCLUSION

For the foregoing reasons, this Court should reject overly restrictive standing tests and adopt a test that focuses on the likelihood of injury to the plaintiff's ability to compete.

Respectfully submitted,

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